UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 000-51401

FHLB Chicago | Federal Home Loan Bank of Chicago

(Exact name of registrant as specified in its charter)

Federally chartered corporation	**36-6001019**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 East Randolph Drive Chicago, IL	**60601**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(312) 565-5700**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of September 30, 2018, including mandatorily redeemable capital stock, registrant had 20,301,777 total outstanding shares of Class B Capital Stock.

FHLB Chicago | Federal Home Loan Bank of Chicago

TABLE OF CONTENTS

	PART I - FINANCIAL INFORMATION	
Item 1.	Financial Statements (unaudited).	
	Statements of Condition	3
	Statements of Income	4
	Statements of Comprehensive Income	5
	Statements of Capital	6
	Condensed Statements of Cash Flows	7
	Note 1 - Background and Basis of Presentation	8
	Note 2 - Summary of Significant Accounting Policies	9
	Note 3 - Recently Issued but Not Yet Adopted Accounting Standards	10
	Note 4 - Interest Income and Interest Expense	12
	Note 5 - Investment Debt Securities	13
	Note 6 - Advances	18
	Note 7 - MPF Loans Held in Portfolio	19
	Note 8 - Allowance for Credit Losses	20
	Note 9 - Derivatives and Hedging Activities	22
	Note 10 - Consolidated Obligations	27
	Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)	28
	Note 12 - Accumulated Other Comprehensive Income (Loss)	29
	Note 13 - Fair Value	30
	Note 14 - Commitments and Contingencies	33
	Note 15 – Transactions with Related Parties and Other FHLBs	34
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	35
Item 3.	Quantitative and Qualitative Disclosures about Market Risk.	56
Item 4.	Controls and Procedures.	58
	PART II - OTHER INFORMATION	
Item 1.	Legal Proceedings.	59
Item 1A.	Risk Factors.	59
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	59
Item 3.	Defaults Upon Senior Securities.	59
Item 4.	Mine Safety Disclosures.	59
Item 5.	Other Information.	59
Item 6.	Exhibits.	60
	Glossary of Terms	61
	Signatures	S-1

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.
Statements of Condition (unaudited)
(Dollars in millions, except capital stock par value)

	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$ 44	$ 42
Interest bearing deposits	775	775
Federal Funds sold	7,685	7,561
Securities purchased under agreements to resell	2,150	5,000
Investment debt securities -		
Trading, 177 and 67 pledged	2,596	233
Available-for-sale	13,707	12,957
Held-to-maturity, 3,217 and 4,538 fair value	2,928	4,157
Investment debt securities	19,231	17,347
Advances, 908 and 776 carried at fair value	54,667	48,085
MPF Loans held in portfolio, net of (1) and (2) allowance for credit losses	6,439	5,193
Derivative assets	11	3
Other assets, 116 and 118 carried at fair value	408	349
Assets	$ 91,410	$ 84,355
Liabilities		
Deposits -		
Noninterest bearing	$ 50	$ 51
Interest bearing, 14 and 32 from other FHLBs	531	473
Deposits	581	524
Consolidated obligations, net -		
Discount notes, 0 and 749 carried at fair value	37,674	41,191
Bonds, 2,202 and 5,260 carried at fair value	46,232	37,121
Consolidated obligations, net	83,906	78,312
Derivative liabilities	25	20
Affordable Housing Program assessment payable	88	88
Mandatorily redeemable capital stock	313	311
Other liabilities	1,173	248
Liabilities	86,086	79,503
Commitments and contingencies - see notes to the financial statements		
Capital		
Class B1 activity stock, 15 and 12 million shares issued and outstanding	1,543	1,241
Class B2 membership stock, 2 and 2 million shares issued and outstanding	175	202
Capital stock - putable, $100 and $100 par value per share	1,718	1,443
Retained earnings - unrestricted	2,989	2,845
Retained earnings - restricted	499	452
Retained earnings	3,488	3,297
Accumulated other comprehensive income (loss) (AOCI)	118	112
Capital	5,324	4,852
Liabilities and capital	$ 91,410	$ 84,355

The accompanying notes are an integral part of these financial statements (unaudited).

Statements of Income (unaudited)
(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Interest income	**$ 603**	$ 411	**$ 1,660**	$ 1,121
Interest expense	**477**	288	**1,278**	768
Net interest income	**126**	123	**382**	353
Provision for (reversal of) credit losses	**(1)**	(1)	**(1)**	—
Net interest income after provision for (reversal of) credit losses	**127**	124	**383**	353
Noninterest income -				
Derivatives and hedging activities	**(5)**	—	**(5)**	6
Instruments held under fair value option	**(3)**	(5)	**(20)**	(3)
MPF fees, **6** , 5 , **18** and 15 from other FHLBs	**9**	8	**24**	21
Other, net	**5**	2	**16**	7
Noninterest income	**6**	5	**15**	31
Noninterest expense -				
Compensation and benefits	**26**	26	**78**	77
Operating expenses	**20**	15	**52**	45
Other	**1**	2	**5**	7
Noninterest expense	**47**	43	**135**	129
Income before assessments	**86**	86	**263**	255
Affordable Housing Program	**9**	9	**27**	26
Net income	**$ 77**	$ 77	**$ 236**	$ 229

The accompanying notes are an integral part of these financial statements (unaudited).

Statements of Comprehensive Income (unaudited)
(Dollars in millions)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Net income	**$ 77**	$ 77	**$ 236**	$ 229
Other comprehensive income (loss) -				
Net unrealized gain (loss) available-for-sale debt securities	**(32)**	(24)	**(124)**	(5)
Noncredit OTTI held-to-maturity debt securities	**7**	8	**22**	25
Net unrealized gain (loss) cash flow hedges	**25**	42	**115**	111
Postretirement plans	**(4)**	3	**(7)**	1
Other comprehensive income (loss)	**(4)**	29	**6**	132
Comprehensive income	**$ 73**	$ 106	**$ 242**	$ 361

The accompanying notes are an integral part of these financial statements (unaudited).

Statements of Capital (unaudited)
(Dollars and shares in millions)

	Capital Stock - Putable - B1 Activity		Capital Stock - Putable - B2 Membership		Total Capital Stock		Retained Earnings				
	Shares	Value	Shares	Value	Shares	Value	Unrestricted	Restricted	Total	AOCI	Total
December 31, 2017	**12**	**$1,241**	**2**	**$ 202**	**14**	**$1,443**	**$ 2,845**	**$ 452**	**$3,297**	**$ 112**	**$4,852**
Comprehensive income							**189**	**47**	**236**	**6**	**242**
Proceeds from issuance of capital stock	**23**	**2,254**	**—**	**11**	**23**	**2,265**					**2,265**
Repurchases of capital stock	**—**	**—**	**(20)**	**(1,988)**	**(20)**	**(1,988)**					**(1,988)**
Capital stock reclassed to mandatorily redeemable capital stock liability	**—**	**(1)**	**—**	**(1)**	**—**	**(2)**					**(2)**
Transfers between classes of capital stock	**(20)**	**(1,951)**	**20**	**1,951**							
Cash dividends - class B1							**(43)**		**(43)**		**(43)**
Class B1 annualized rate											**3.92%**
Cash dividends - class B2							**(2)**		**(2)**		**(2)**
Class B2 annualized rate											**1.60%**
Total change in period	**3**	**302**	**—**	**(27)**	**3**	**275**	**144**	**47**	**191**	**6**	**472**
September 30, 2018	**15**	**$1,543**	**2**	**$ 175**	**17**	**$1,718**	**$ 2,989**	**$ 499**	**$3,488**	**$ 118**	**$5,324**
December 31, 2016	12	$1,160	6	$ 551	18	$1,711	$ 2,631	$ 389	$3,020	$ (36)	$4,695
Comprehensive income							183	46	229	132	361
Proceeds from issuance of capital stock	21	2,162	—	10	21	2,172					2,172
Repurchases of capital stock	—	(35)	(23)	(2,285)	(23)	(2,320)					(2,320)
Capital stock reclassed to mandatorily redeemable capital stock liability	—	(3)	—	(3)	—	(6)					(6)
Transfers between classes of capital stock	(19)	(1,933)	19	1,933							
Cash dividends - class B1							(28)		(28)		(28)
Class B1 annualized rate											3.15%
Cash dividends - class B2							(2)		(2)		(2)
Class B2 annualized rate											1.05%
Total change in period	2	191	(4)	(345)	(2)	(154)	153	46	199	132	177
September 30, 2017	14	$1,351	2	$ 206	16	$1,557	$ 2,784	$ 435	$3,219	$ 96	$4,872

The accompanying notes are an integral part of these financial statements (unaudited).

Condensed Statements of Cash Flows (unaudited)
(Dollars in millions)

	Nine months ended September 30,	2018	2017
Operating	**Net cash provided by (used in) operating activities**	**$ 447**	$ 337
Investing	Net change interest bearing deposits	**—**	(100)
	Net change Federal Funds sold	**(124)**	(5,774)
	Net change securities purchased under agreements to resell	**2,850**	(1,450)
	Trading debt securities -		
	Sales	**200**	801
	Proceeds from maturities and paydowns	**8**	205
	Purchases	**(2,566)**	(200)
	Available-for-sale debt securities -		
	Proceeds from maturities and paydowns	**2,365**	1,307
	Purchases	**(2,476)**	(5)
	Held-to-maturity debt securities -		
	Short-term held-to-maturity securities, net	**497** [a]	570 [a]
	Proceeds from maturities and paydowns	**786**	816
	Purchases	**(22)**	(27)
	Advances -		
	Principal collected	**1,017,269**	543,511
	Issued	**(1,024,012)**	(548,590)
	MPF Loans held in portfolio -		
	Principal collected	**595**	761
	Purchases	**(1,848)**	(821)
	Other investing activities	**14**	20
	Net cash provided by (used in) investing activities	**(6,464)**	(8,976)
Financing	Net change deposits	**57**	104
	Discount notes -		
	Net proceeds from issuance	**1,469,628**	1,080,879
	Payments for maturing and retiring	**(1,473,155)**	(1,071,386)
	Consolidated obligation bonds -		
	Net proceeds from issuance	**32,132**	13,947
	Payments for maturing and retiring	**(22,862)**	(15,024)
	Capital stock -		
	Proceeds from issuance	**2,265**	2,172
	Repurchases	**(1,988)**	(2,320)
	Cash dividends paid	**(45)**	(30)
	Other financing activities	**(13)**	(22)
	Net cash provided by (used in) financing activities	**6,019**	8,320
	Net increase (decrease) in cash and due from banks	**2**	(319)
	Cash and due from banks at beginning of period	**42**	351
	Cash and due from banks at end of period	**$ 44**	$ 32

[a] Short-term assets and liabilities are presented on a net basis provided that the original maturity of the asset or liability is three months or less from the date of origination or the date of purchase.

The accompanying notes are an integral part of these financial statements (unaudited).

Note 1 – Background and Basis of Presentation

The Federal Home Loan Bank of Chicago is a federally chartered corporation and one of 11 Federal Home Loan Banks (the FHLBs) that, with the Office of Finance, comprise the Federal Home Loan Bank System (the System). The FHLBs are government-sponsored enterprises (GSE) of the United States of America and were organized under the Federal Home Loan Bank Act of 1932, as amended (FHLB Act), in order to improve the availability of funds to support home ownership. We are supervised and regulated by the Federal Housing Finance Agency (FHFA), an independent federal agency in the executive branch of the United States (U.S.) government.

Each FHLB is a member-owned cooperative with members from a specifically defined geographic district. Our defined geographic district is Illinois and Wisconsin. All federally-insured depository institutions, insurance companies engaged in residential housing finance, credit unions and community development financial institutions located in our district are eligible to apply for membership with us. All our members are required to purchase our capital stock as a condition of membership. Our capital stock is not publicly traded, and is issued, repurchased or redeemed at par value, $100 per share, subject to certain statutory and regulatory limits. As a cooperative, we do business with our members, and former members (under limited circumstances). Specifically, we provide credit principally in the form of secured loans called advances. We also provide liquidity for home mortgage loans to members approved as Participating Financial Institutions (PFIs) through the Mortgage Partnership Finance® (MPF®) Program.

Our accounting and financial reporting policies conform to generally accepted accounting principles in the United States of America (GAAP). Amounts in prior periods may be reclassified to conform to the current presentation and, if material, are disclosed in the following notes.

In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited financial statements and the following footnotes should be read in conjunction with the audited financial statements and footnotes for the year ended December 31, 2017, included in our Annual Report on Form 10-K (2017 Form 10-K) starting on page F-1, as filed with the Securities and Exchange Commission (SEC).

Unless otherwise specified, references to we, us, our, and the Bank are to the Federal Home Loan Bank of Chicago.

“Mortgage Partnership Finance”, “MPF”, “MPF Xtra”, and "Community First" are registered trademarks of the Federal Home Loan Bank of Chicago.

See the **Glossary of Terms** starting on page 59 for the definitions of certain terms used herein.

Use of Estimates and Assumptions

We are required to make estimates and assumptions when preparing our financial statements in accordance with GAAP. The most significant of these estimates and assumptions applies to fair value measurements and allowance for credit losses. Our actual results may differ from the results reported in our financial statements due to such estimates and assumptions. This includes the reported amounts of assets and liabilities, the reported amounts of income and expense, and the disclosure of contingent assets and liabilities.

Basis of Presentation

The basis of presentation pertaining to the consolidation of our variable interest entities has not changed since we filed our 2017 Form 10-K. The basis of presentation pertaining to our gross versus net presentation of financial instruments also has not changed since we filed our 2017 Form 10-K.

Refer to **Note 1- Background and Basis of Presentation** to the financial statements in our 2017 Form 10-K with respect to our basis of presentation for consolidation of variable interest entities and our gross versus net presentation of financial instruments for further details.

Note 2 – Summary of Significant Accounting Policies

Our **Summary of Significant Accounting Policies** through December 31, 2017, can be found in **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2017 Form 10-K. We adopted the following policies effective January 1, 2018:

Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)

We are required to recognize the portion of instrument-specific credit risk attributable to the total change in fair value of our consolidated obligations that are carried at fair value in our statements of comprehensive income. We measure such instrument-specific credit risk based on our nonperformance risk, which includes our nonperformance risk and the credit risk associated with the joint and several liability of other FHLBs. The new guidance did not have an effect on our financial condition, results of operations, and cash flows at the time of adoption.

Revenue from Contracts with Customers (ASU 2014-09)

The revenue recognition guidance did not have any effect on our financial condition, results of operations, or cash flows at the time of adoption. This is because the majority of our financial instruments and other contractual rights that generate revenue are covered by other GAAP, and therefore, were scoped out of this new guidance. Further, our prior method of recognizing service fee revenue was consistent with this new guidance. As a result, no cumulative effect adjustment to our opening balance of retained earnings in 2018 was required under the modified retrospective method.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07)

We are required to classify the service cost component of our net periodic pension and postretirement benefit costs as compensation costs. All other components of our net periodic pension and postretirement benefit costs are required to be classified as Noninterest expense - Other. Previously, our total net periodic pension and postretirement costs were classified as compensation costs. We made this classification change on a prospective rather than retrospective basis due to materiality. This classification guidance did not have a significant effect on our financial condition, results of operations, and cash flows.

Classification of Certain Cash Receipts and Cash Payments in the Statement of Cash Flows (ASU 2016-15)

We classify and disclose interest expense on zero coupon discount notes within operating activities, which is consistent with our prior and current classification practice. As a result, this guidance did not have any effect on our financial condition, results of operations, and cash flows at the time of adoption.

Note 3 – Recently Issued but Not Yet Adopted Accounting Standards

Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12)

In August of 2017, the FASB issued targeted improvements to existing derivatives and hedging guidance. We will adopt this guidance as of January 1, 2019, and we may modify the risk of certain fair value hedges from contractual coupon interest rate to benchmark rate component improving hedge effectiveness. We do not expect the opening adjustment to retained earnings related to ineffectiveness recognized in prior reporting periods attributable to open cash flows hedges to be material as of January 1, 2019. We are still assessing the impact of other potential impacts of implementing ASU 2017-12 at this time.

Outlined below are the significant changes to existing GAAP guidance that may have an effect on us.

Newly Permitted Hedging Strategies:

- Permits us to enter into a cash flow hedge of the variability in cash flows in a financial instrument that has a contractually specified interest rate.
- Permits us to hedge the benchmark risk component of cash flows in a fair value hedge.
- Permits us to enter into a partial-term fair value hedge of the hedged item.
- Permits us to enter into last-of-layer fair value hedges.

Assessment of Hedge Effectiveness:

- Permits qualitative assessment of hedge effectiveness.
- Enables applying the long-haul method of assessing hedge effectiveness in cases where the shortcut method was initially applied but subsequently is not or no longer is appropriate.

Financial Statement Presentation:

- Requires the entire change in fair value of the hedging instrument in a cash flow hedge to be recorded and deferred in AOCI until reclassification to our statements of income would be required.
- Requires hedge ineffectiveness to be presented in either interest income or interest expense, whichever is appropriate rather than in derivatives and hedging activities in our statements of income.
- The presentation and disclosure guidance will be prospectively adopted.

Transition:

- Prior reporting periods are not restated.
- Requires recognition of cumulative effect adjustment to AOCI with a corresponding adjustment to the opening balance of retained earnings related to ineffectiveness recognized in prior reporting periods attributable to open cash flow hedges as of January 1, 2019.
- Permits us to modify the risk hedged under the existing fair value hedges of interest rate risk with the risk under newly permitted hedging strategies as of January 1, 2019. Such an election will require an adjustment to the opening balance of retained earnings.
- We are permitted to reclassify a debt security from held-to-maturity to available-for-sale if the debt security is eligible to be hedged under the last-of-the layer method.

Measurement of Credit Losses on Financial Instruments (ASU 2016-13)

In June of 2016, the FASB amended existing GAAP guidance applicable to measuring credit losses on financial instruments. This guidance takes effect January 1, 2020. We are in the process of reviewing the expected effect of this guidance on our financial condition, results of operations, and cash flows. Specifically, the amendment replaces the “incurred loss” impairment methodology applied under current GAAP with a “currently expected credit losses” or CECL methodology. The measurement of CECL is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial instrument’s reported amount. Upon adoption, any difference between our existing and CECL allowance for credit losses will be recognized as a cumulative-effect adjustment to the opening balance of our retained earnings as of January 1, 2020.

In addition, the accounting for securities is amended as follows:

- Aligns the income statement recognition of credit losses for securities with the reporting period in which changes in collectability occur by recording credit losses (and subsequent reversals) through an allowance rather than a write-down as currently required under GAAP.

- Requires recognition of a credit loss on available-for-sale (AFS) securities into the income statement if the present value of cash flows expected to be collected on the security is less than its amortized cost basis. Additionally, the allowance on AFS debt securities will be limited to the amount by which fair value is less than the amortized cost basis.

A prospective transition approach is required for debt securities. Accordingly, any OTTI write-downs on securities recognized prior to January 1, 2020 may not be reversed at the time of our adoption. Improvements in expected cash flows for these securities will continue to be accounted for as yield adjustments over their remaining life. Additionally, recoveries for these securities will be recorded in earnings only when received.

Leases (ASU 2016-02)

In February of 2016, the FASB issued lease accounting guidance that becomes effective January 1, 2019. Upon adoption we are required to apply the guidance to the beginning of our earliest statement of income presented, that is, January 1, 2017, using the modified retrospective approach. Prior statements of income will not need to be restated. The cumulative effect adjustment to the opening balance of retained earnings, if applicable, will be recognized as of January 1, 2019. The guidance requires us to recognize and measure our operating leases as right-of-use assets, with terms that exceed 12 months, in our statements of condition. Expenses attributable to our leases will continue to be included in noninterest expense - operating expenses in our statements of income. We do not expect the new guidance to have a significant effect on our financial condition, results of operations, and cash flows since our existing off-balance sheet operating leases are not material.

Fair value Measurement Disclosures (ASU 2018-13)

In August of 2018, the FASB issued an amendment to existing fair value measurement disclosure requirements. The amendment removes, modifies or adds to existing fair value measurement disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments related to additional Level 3 disclosures should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted to remove or modify disclosures under this amendment and new disclosures required under this amendment may be deferred to the December 15, 2019 effective date.

Compensation-Retirement Benefits-Defined Benefit Plans Disclosures (ASU 2018-14)

In August of 2018, the FASB issued an amendment to existing defined benefit plan disclosure requirements. The amendment removes certain requirements and adds a requirement to explain the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments are effective January 1, 2021. Early adoption is permitted. We are required to apply the amendments on a retrospective basis to all periods presented.

Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement (ASU 2018-15)

In August of 2018, the FASB issued amendments to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments. The amendments are effective January 1, 2020. Early adoption of the amendments is permitted, including adoption in any interim period. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We do not expect the new guidance to have a significant effect on our financial condition, results of operations, and cash flows.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 4 – Interest Income and Interest Expense

The following table presents interest income and interest expense for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Interest income -				
Trading	**$ 8**	$ 1	**$ 23**	$ 3
Available-for-sale interest income	**107**	106	**318**	321
Available-for-sale prepayment fees	**7**	9	**27**	20
Available-for-sale	**114**	115	**345**	341
Held-to-maturity	**46**	47	**135**	148
Investment debt securities	**168**	163	**503**	492
Advances	**312**	157	**811**	386
MPF Loans held in portfolio	**62**	53	**177**	160
Federal funds sold and securities purchased under agreements to resell	**54**	34	**152**	74
Other	**7**	4	**17**	9
Interest income	**603**	411	**1,660**	1,121
Interest expense -				
Consolidated obligations -				
Discount notes	**208**	148	**596**	363
Bonds	**263**	136	**665**	394
Other	**6**	4	**17**	11
Interest expense	**477**	288	**1,278**	768
Net interest income	**126**	123	**$ 382**	$ 353
Provision for (reversal of) credit losses	**(1)**	(1)	**(1)**	—
Net interest income after provision for (reversal of) credit losses	**$ 127**	$ 124	**$ 383**	$ 353

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 5 – Investment Debt Securities

We classify debt securities as either trading, held-to-maturity (HTM), or available-for-sale (AFS). Our security disclosures within these classifications are disaggregated by major security types as shown below. Our major security types are based on the nature and risks of the security:

- U.S. Government & other government related - may consist of the sovereign debt of the United States; debt issued by government sponsored enterprises (GSE); debt issued by the Tennessee Valley Authority; and securities guaranteed by the Small Business Administration.
- Federal Family Education Loan Program - asset-backed securities (FFELP ABS).
- GSE residential mortgage-backed securities (MBS) - issued by Fannie Mae and Freddie Mac.
- Government guaranteed residential MBS.
- Private label residential MBS.
- State or local housing agency obligations.

Pledged Collateral

We disclose the amount of investment securities pledged as collateral pertaining to our derivatives activity on our statements of condition. See **Note 9 - Derivatives and Hedging Activities** for further details.

Trading Debt Securities

The following table presents the fair value of our trading debt securities. Our unrealized gains (losses) on trading debt securities still held on our statement of condition as of the end of the reporting period were $8 million at September 30, 2018 and were not material at December 31, 2017.

As of	**September 30, 2018**	December 31, 2017
U.S. Government & other government related	**$ 2,574**	$ 202
Residential MBS		
GSE	**21**	30
Government guaranteed	**1**	1
Trading debt securities	**$ 2,596**	$ 233

Notes to Financial Statements - (Unaudited)
(Dollars in tables in millions except per share amounts unless otherwise indicated)

Amortized Cost Basis and Fair Value – Available-for-Sale Debt Securities (AFS)

	Amortized Cost Basis	Gross Unrealized Gains in AOCI	Gross Unrealized (Losses) in AOCI	Carrying Amount and Fair Value
As of September 30, 2018				
U.S. Government & other government related	**$ 440**	**$ 8**	**$ (1)**	**$ 447**
State or local housing agency	**16**	**—**	**—**	**16**
FFELP ABS	**3,680**	**220**	**—**	**3,900**
Residential MBS				
GSE	**8,520**	**38**	**(4)**	**8,554**
Government guaranteed	**732**	**14**	**—**	**746**
Private label	**36**	**8**	**—**	**44**
Available-for-sale debt securities	**$ 13,424**	**$ 288**	**$ (5)**	**$ 13,707**
As of December 31, 2017				
U.S. Government & other government related	$ 256	$ 15	$ —	$ 271
State or local housing agency	21	—	—	21
FFELP ABS	3,987	234	(7)	4,214
Residential MBS				
GSE	7,275	132	(1)	7,406
Government guaranteed	971	24	—	995
Private label	40	10	—	50
Available-for-sale debt securities	$ 12,550	$ 415	$ (8)	$ 12,957

We had no sales of AFS securities for the periods presented.

Notes to Financial Statements - (Unaudited)
(Dollars in tables in millions except per share amounts unless otherwise indicated)

Amortized Cost Basis, Carrying Amount, and Fair Value - Held-to-Maturity Debt Securities (HTM)

	Amortized Cost Basis	Non-credit OTTI Recognized in AOCI (Loss)	Carrying Amount	Gross Unrecognized Holding Gains	Gross Unrecognized Holding (Losses)	Fair Value
As of September 30, 2018						
U.S. Government & other government related	**$ 880**	**$ —**	**$ 880**	**$ 7**	**$ (2)**	**$ 885**
State or local housing agency	**7**	**—**	**7**	**—**	**—**	**7**
Residential MBS						
GSE	**1,201**	**—**	**1,201**	**28**	**—**	**1,229**
Government guaranteed	**425**	**—**	**425**	**3**	**—**	**428**
Private label	**536**	**(121)**	**415**	**253**	**—**	**668**
Held-to-maturity debt securities	**$ 3,049**	**$ (121)**	**$ 2,928**	**$ 291**	**$ (2)**	**$ 3,217**
As of December 31, 2017						
U.S. Government & other government related	$ 1,531	$ —	$ 1,531	$ 29	$ (1)	$ 1,559
State or local housing agency	9	—	9	—	—	9
Residential MBS						
GSE	1,513	—	1,513	62	—	1,575
Government guaranteed	585	—	585	6	—	591
Private label	662	(143)	519	285	—	804
Held-to-maturity debt securities	$ 4,300	$ (143)	$ 4,157	$ 382	$ (1)	$ 4,538

We had no sales of HTM securities for the periods presented.

Contractual Maturity Terms

The maturity of our AFS and HTM investments is detailed in the following table.

	Available-for-Sale		Held-to-Maturity	
As of September 30, 2018	Amortized Cost Basis	Carrying Amount and Fair Value	Carrying Amount	Fair Value
Year of Maturity -				
Due in one year or less	**$ 3**	**$ 3**	**$ 178**	**$ 177**
Due after one year through five years	**2**	**2**	**93**	**94**
Due after five years through ten years	**163**	**163**	**109**	**109**
Due after ten years	**288**	**295**	**507**	**512**
ABS and MBS without a single maturity date	**12,968**	**13,244**	**2,041**	**2,325**
Total debt securities	**$ 13,424**	**$ 13,707**	**$ 2,928**	**$ 3,217**

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Aging of Unrealized Temporary Losses

The following table presents unrealized temporary losses on our AFS and HTM portfolio for periods less than 12 months and for 12 months or more. We recognized no OTTI charges on these unrealized loss positions. Refer to the Other-Than-Temporary Impairment Analysis section below for further discussion. In the tables below, in cases where the gross unrealized losses for an investment category are less than $1 million, the losses are not reported.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Available-for-sale debt securities						
As of September 30, 2018						
U.S. Government & other government related	**$ 239**	**$ (1)**	**$ —**	**$ —**	**$ 239**	**$ (1)**
State or local housing agency	**9**	**—**	**—**	**—**	**9**	**—**
FFELP ABS	**—**	**—**	**597**	**—**	**597**	**—**
Residential MBS						
GSE	**1,634**	**(3)**	**604**	**(1)**	**2,238**	**(4)**
Private label	**—**	**—**	**6**	**—**	**6**	**—**
Available-for-sale debt securities	**$ 1,882**	**$ (4)**	**$ 1,207**	**$ (1)**	**$ 3,089**	**$ (5)**
As of December 31, 2017						
U.S. Government & other government related	$ 3	$ —	$ —	$ —	$ 3	$ —
State or local housing agency	4	—	—	—	4	—
FFELP ABS	—	—	644	(7)	644	(7)
Residential MBS						
GSE	51	—	801	(1)	852	(1)
Private label	—	—	7	—	7	—
Available-for-sale debt securities	$ 58	$ —	$ 1,452	$ (8)	$ 1,510	$ (8)
Held-to-maturity debt securities						
As of September 30, 2018						
U.S. Government & other government related	**$ 145**	**$ (1)**	**$ 19**	**$ (1)**	**$ 164**	**$ (2)**
State or local housing agency	**3**	**—**	**—**	**—**	**3**	**—**
Residential MBS						
GSE	**197**	**—**	**—**	**—**	**197**	**—**
Government-guaranteed	**179**	**—**	**—**	**—**	**179**	**—**
Private label	**—**	**—**	**637**	**(121)**	**637**	**(121)**
Held-to-maturity debt securities	**$ 524**	**$ (1)**	**$ 656**	**$ (122)**	**$ 1,180**	**$ (123)**
As of December 31, 2017						
U.S. Government & other government related	$ 594	$ —	$ 24	$ (1)	$ 618	$ (1)
State or local housing agency	2	—	—	—	2	—
Residential MBS						
GSE	—	—	2	—	2	—
Private label	—	—	769	(143)	769	(143)
Held-to-maturity debt securities	$ 596	$ —	$ 795	$ (144)	$ 1,391	$ (144)

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Other-Than-Temporary Impairment Analysis

We recognized no OTTI charges on HTM or AFS debt securities for the periods presented. This is because we do not intend to sell these securities, we believe it is more likely than not that we will not be required to sell them prior to recovering their amortized cost basis, and we expect to recover the entire amortized cost basis. For further detail on our accounting policy regarding OTTI please see **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2017 Form 10-K.

As of September 30, 2018, we had a base case short-term housing price forecast for all markets with projected changes ranging from -10.0% to +15.0% over the twelve month period beginning July 1, 2018. For the vast majority of markets, the short-term forecast has changes ranging from +3.0% to +7.0%.

The following table presents the changes in the cumulative amount of previously recorded OTTI credit losses on investment debt securities recognized into earnings for the reporting periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Beginning Balance	**$ 459**	$ 499	**$ 477**	$ 520
Reductions:				
Increases in cash flows expected to be collected and recognized into interest income	**(8)**	(10)	**(26)**	(31)
Ending Balance	**$ 451**	$ 489	**$ 451**	$ 489

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 6 – Advances

We offer a wide range of fixed- and variable-rate advance products with different maturities, interest rates, payment characteristics and optionality.

The following table presents our advances by terms of contractual maturity. Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay advances with or without penalties.

As of September 30, 2018	Amount	Weighted Average Contractual Interest Rate
Due in one year or less	$ 23,638	2.19%
One to two years	2,556	2.05%
Two to three years	2,651	2.19%
Three to four years	1,910	2.32%
Four to five years	8,175	2.42%
More than five years	15,833	2.28%
Par value	$ 54,763	2.25%

We have no allowance for credit losses on our advances. See **Note 8 - Allowance for Credit Losses** to the financial statements for further information related to our credit risk on advances.

The following table reconciles the par value of our advances to the carrying amount on our statements of condition as of the dates indicated.

As of	September 30, 2018	December 31, 2017
Par value	$ 54,763	$ 48,020
Fair value hedging adjustments	(79)	69
Other adjustments	(17)	(4)
Advances	$ 54,667	$ 48,085

The following advance borrowers exceeded 10% of our advances outstanding:

As of September 30, 2018	Par Value	% of Total Outstanding
One Mortgage Partners Corp.	$ 11,000 [a]	20.1%
The Northern Trust Company	7,700	14.1%
BMO Harris Bank, NA	6,975	12.7%

[a] One Mortgage Partners Corp. is a subsidiary of JPMorgan Chase Bank NA.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 7 – MPF Loans Held in Portfolio

We acquire MPF Loans from PFIs to hold in our portfolio and historically purchased participations in pools of eligible mortgage loans from other FHLBs (MPF Banks). MPF Loans that are held in portfolio are fixed-rate conventional and Government Loans secured by one-to-four family residential properties with maturities ranging from 5 years to 30 years or participations in pools of similar eligible mortgage loans from other MPF Banks.

The following table presents information on MPF Loans held in portfolio by contractual maturity at the time of purchase.

As of	September 30, 2018	December 31, 2017
Medium term (15 years or less)	$ 318	$ 285
Long term (greater than 15 years)	6,026	4,835
Unpaid principal balance	6,344	5,120
Net premiums, credit enhancement, and/or deferred loan fees	86	55
Fair value hedging adjustments	10	20
MPF Loans held in portfolio, before allowance for credit losses	6,440	5,195
Allowance for credit losses on MPF Loans	(1)	(2)
MPF Loans held in portfolio, net	$ 6,439	$ 5,193
Conventional mortgage loans	$ 5,402	$ 4,133
Government Loans	942	987
Unpaid principal balance	$ 6,344	$ 5,120

The above table excludes MPF Loans acquired under the MPF Xtra, MPF Direct, and MPF Government MBS products. See **Note 2 - Summary of Significant Accounting Policies** in our 2017 Form 10-K for information related to the accounting treatment of these off balance sheet MPF Loan products.

See **Note 8 - Allowance for Credit Losses** to the financial statements for information related to our credit losses on MPF Loans held in portfolio.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 8 – Allowance for Credit Losses

See **Note 2 - Summary of Significant Accounting Policies** to the financial statements in our 2017 Form 10-K for further details regarding our allowance for credit losses methodology for each of the portfolio segments discussed below.

We have identified our portfolio segments as shown below:

- Member credit products (advances, letters of credit and other extensions of credit to borrowers);
- Conventional MPF Loans held in portfolio;
- Government Loans held in portfolio; and
- Federal Funds Sold and Securities Purchased Under Agreements to Resell.

Member Credit Products

We have not recorded any allowance for credit losses for our member credit products portfolio segment based upon our credit analysis and the repayment history on member credit products. We had no member credit products that were past due, on nonaccrual status, involved in a troubled debt restructuring or otherwise considered impaired. We have not recorded a separate liability to reflect credit losses on our member credit products with off-balance sheet credit exposure.

Conventional MPF Loans Held in Portfolio

For further detail of our **MPF Risk Sharing Structure** see page F-16 in our 2017 Form 10-K. There has been no material activity in our allowance for credit losses since December 31, 2017. The following table presents the recorded investment and the allowance for credit losses in conventional MPF Loans by impairment methodology.

As of	September 30, 2018	December 31, 2017
Recorded investment -		
Individually evaluated for impairment	$ 38	$ 49
Collectively evaluated for impairment	5,473	4,167
Recorded investment	$ 5,511	$ 4,216
Allowance for credit losses -		
Collectively evaluated for impairment	$ 1	$ 2

Government Loans Held in Portfolio

Servicers are responsible for absorbing any losses incurred on Government Loans held in portfolio that are not recovered from the government insurer or guarantor. We did not establish an allowance for credit losses on our Government Loans held in portfolio for the reporting periods presented based on our assessment that our servicers have the ability to absorb such losses. Further, Government Loans were not placed on nonaccrual status or disclosed as troubled debt restructurings for the same reason.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Credit Quality Indicators - MPF Loans Held in Portfolio

The following table summarizes our recorded investment in MPF Loans by our key credit quality indicators, which include:

- "Serious delinquency rate" consists of MPF Loans that are 90 days or more past due or in the process of foreclosure, as a percentage of the total recorded investment. MPF Loans that are both 90 days or more past due and in the process of foreclosure are only included once in our serious delinquency rate calculation.
- "Past due 90 days or more still accruing interest" consists of MPF Loans that are either insured or guaranteed by the government or conventional mortgage loans that are well secured (by collateral that have a realizable value sufficient to discharge the debt or by the guarantee or insurance, such as primary mortgage insurance, of a financially responsible party) and in the process of collection. We do not recognize interest income on impaired conventional MPF Loans.
- Conventional MPF Loans are individually evaluated for impairment when they are adversely classified. There is no allowance for credit losses attributable to conventional MPF Loans that are individually evaluated for impairment, since the related allowance for credit losses has been charged off.

	September 30, 2018			December 31, 2017		
As of	**Conventional**	**Government**	**Total**	Conventional	Government	Total
Past due 30-59 days	**$ 59**	**$ 37**	**$ 96**	$ 74	$ 48	$ 122
Past due 60-89 days	**14**	**14**	**28**	21	16	37
Past due 90 days or more	**35**	**18**	**53**	48	21	69
Past due	**108**	**69**	**177**	143	85	228
Current	**5,403**	**893**	**6,296**	4,073	921	4,994
Recorded investment	**$ 5,511**	**$ 962**	**$ 6,473**	$ 4,216	$ 1,006	$ 5,222
In process of foreclosure	**$ 16**	**$ 6**	**$ 22**	$ 21	$ 7	$ 28
Serious delinquency rate	**0.66%**	**1.87%**	**0.84%**	1.16%	2.11%	1.34%
Past due 90 days or more and still accruing interest	**$ 5**	**$ 18**	**$ 23**	$ 8	$ 21	$ 29
Impaired loans without an allowance for credit losses and on nonaccrual status	**38**	**—**	**38**	49	—	49
Unpaid principal balance of impaired loans without an allowance for credit losses	**41**	**—**	**41**	53	—	53

Term Federal Funds Sold and Term Securities Purchased Under Agreements to Resell

We only held overnight Federal Funds sold and Securities Purchased Under Agreements to Resell as of September 30, 2018, and December 31, 2017. We did not have any longer term Federal Funds sold and Securities Purchased Under Agreements to Resell arrangements. We did not establish an allowance for credit losses for our overnight Federal Funds sold since all Federal Funds sold were repaid according to their contractual terms. We also did not establish an allowance for credit losses for overnight securities purchased under agreements to resell since all payments due under the contractual terms have been received and we hold sufficient underlying collateral.

Note 9 – Derivatives and Hedging Activities

Refer to **Note 2 - Summary of Significant Accounting Policies** in our 2017 Form 10-K for our accounting policies for derivatives.

We transact most of our derivatives with large banks and major broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell, and distribute consolidated obligations. We are not a derivatives dealer and do not trade derivatives for speculative purposes. We enter into derivative transactions through either of the following:

- A bilateral agreement with an individual counterparty for over-the-counter derivative transactions.
- Clearinghouses classified as Derivatives Clearing Organizations (DCOs) through Futures Commission Merchants (FCMs), which are clearing members of the DCOs, for cleared derivative transactions.

Managing Interest Rate Risk

We use fair value hedges to offset changes in the fair value of a benchmark interest rate, for example London Interbank Offering Rate (LIBOR), related to (1) a recognized asset or liability or (2) an unrecognized firm commitment. Our hedge strategy for cash flow hedges is to hedge the total proceeds received from rolling forecasted zero-coupon discount note issuances attributable to changes in the benchmark interest rate or LIBOR by entering into interest rate swaps to mitigate such risk. We use economic hedges in cases where hedge accounting treatment is not permitted or achievable; for example, hedges of portfolio interest rate risk or financial instruments carried at fair value under the fair value option.

Managing Credit Risk on Derivative Agreements

Over-the-counter (bilateral) Derivative Transactions: We are subject to credit risk due to the risk of nonperformance by counterparties to our derivative agreements. For bilateral derivative agreements, the degree of counterparty risk depends on the extent to which master netting arrangements, collateral requirements and other credit enhancements are included in such contracts to mitigate the risk. We manage counterparty credit risk through credit analysis, collateral requirements and adherence to the requirements set forth in our policies and FHFA regulations. We require collateral agreements on all over-the-counter derivatives. Additionally, collateral related to over-the-counter derivatives with member institutions includes collateral assigned to us, as evidenced by a written security agreement, and which may be held by the member institution for our benefit. Based on credit analyses and collateral requirements, we do not anticipate any credit losses on our over-the-counter derivative agreements. See **Note 16 - Fair Value** in our 2017 Form 10-K for discussion regarding our fair value methodology for over-the-counter derivative assets and liabilities, including an evaluation of the potential for the fair value of these instruments to be affected by counterparty credit risk.

For nearly all of our bilateral derivative transactions executed prior to March 1, 2017, and for all transactions entered into after March 1, 2017, our bilateral derivative agreements are fully collateralized with a zero unsecured threshold in accordance with variation margin requirements issued by the U.S. federal bank regulatory agencies and the Commodity Futures Trading Commission (CFTC). For certain transactions executed prior to March 1, 2017, we may be required to post net additional collateral with our counterparties if there is deterioration in our credit rating. If our credit rating had been lowered from its current rating to the next lower rating by a major credit rating agency, such as Standard and Poor's or Moody's, the amount of collateral we would have been required to deliver would not have been material at September 30, 2018.

Cleared Derivative Transactions: Cleared derivative transactions are subject to variation and initial margin requirements established by the DCO and its clearing members. As a result of rule changes adopted by our DCOs, variation margin payments are characterized as settlement of a derivative's mark-to-market exposure and not as collateral against the derivative's mark-to-market exposure. See **Note 1 - Background and Basis of Presentation** and **Note 2 - Summary of Significant Accounting Policies** to the financial statements in this Form 10-Q and our 2017 Form 10-K for further discussion. We post our initial margin collateral payments and make variation margin settlement payments through our FCMs, on behalf of the DCO, which could expose us to institutional credit risk in the event that the FCMs or the DCO fail to meet their obligations. Clearing derivatives through a DCO mitigates counterparty credit risk exposure because the DCO is substituted for individual counterparties and variation margin settlement payments are made daily through the FCMs for changes in the value of cleared derivatives. The DCO determines initial margin requirements for cleared derivatives. In this regard, we pledged $177 million of investment securities that can be sold or repledged, as part of our initial margin related to cleared derivative transactions at September 30, 2018. Additionally, an FCM may require additional initial margin to be posted based on credit considerations, including but not limited to, if our credit rating downgrades. We had no requirement to post additional initial margin by our FCMs at September 30, 2018.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

The following table presents details on the notional amounts, and cleared and bilateral derivative assets and liabilities on our statements of condition. To conform with our current presentation method, we reclassified variation margin for cleared derivatives as of December 31, 2017, in the amounts of $16 million on our derivative assets and $168 million on our derivative liabilities, to the appropriate interest rate contracts line items. The netting adjustment amount includes cash collateral (either received or paid by us) and related accrued interest in cases where we have a legal right, by contract (e.g., master netting agreement) or otherwise, to offset cash flow obligations between us and our counterparty into a single net payable or receivable.

	September 30, 2018			December 31, 2017		
As of	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives in hedge accounting relationships-						
Interest rate contracts	**$ 31,281**	**$ 60**	**$ 338**	$ 26,655	$ 25	$ 367
Derivatives not in hedge accounting relationships-						
Interest rate contracts	**20,696**	**110**	**81**	20,506	199	122
Other	**811**	**1**	**1**	810	1	1
Derivatives not in hedge accounting relationships	**21,507**	**111**	**82**	21,316	200	123
Gross derivative amount before netting adjustments and cash collateral	**$ 52,788**	**171**	**420**	$ 47,971	225	490
Netting adjustments and cash collateral		**(160)**	**(395)**		(222)	(470)
Derivatives on statements of condition		**$ 11**	**$ 25**		$ 3	$ 20
Cash collateral received on derivative assets		**$ 45**			$ 35	
Cash collateral posted on derivative liabilities			**$ 281**			$ 284

The following table presents the noninterest income on derivatives and hedging activities as presented in the statements of income. The amounts attributable to fair value and cash flow hedges represent hedge ineffectiveness.

	Three months ended September 30,		Nine months ended September 30,	
For the periods ending	**2018**	2017	**2018**	2017
Fair value hedges - interest rate contracts	**$ (6)**	$ (3)	**$ (6)**	$ (3)
Cash flow hedges - interest rate contracts	**—**	1	**1**	2
Economic hedges -				
Interest rate contracts	**2**	2	**1**	3
Other	**(1)**	—	**(2)**	3
Economic hedges	**1**	2	**(1)**	6
Variation margin on daily settled cleared derivatives	**—**	—	**1**	1
Noninterest income on derivatives and hedging activities	**$ (5)**	$ —	**$ (5)**	$ 6

(Dollars in tables in millions except per share amounts unless otherwise indicated)

The following table presents details regarding the offsetting of our derivative assets and liabilities on our statements of condition. The netting adjustment amount includes cash collateral (either received or paid by us) and related accrued interest in cases where we have a legal right, by contract (e.g., master netting agreement) or otherwise, to offset cash flow obligations between us and our counterparty into a single net payable or receivable.

	Derivative Assets			Derivative Liabilities		
	Bilateral	Cleared	Total	Bilateral	Cleared	Total
As of September 30, 2018						
Derivatives with legal right of offset -						
Gross recognized amount	**$ 148**	**$ 23**	**$ 171**	**$ 381**	**$ 38**	**$ 419**
Netting adjustments and cash collateral	**(138)**	**(22)**	**(160)**	**(374)**	**(21)**	**(395)**
Derivatives with legal right of offset - net	**10**	**1**	**11**	**7**	**17**	**24**
Derivatives without legal right of offset	**—**	**—**	**—**	**1**	**—**	**1**
Derivatives on statements of condition	**10**	**1**	**11**	**8**	**17**	**25**
Less:						
Noncash collateral received or pledged and cannot be sold or repledged	**—**	**—**	**—**	**—**	**17**	**17**
Net amount	**$ 10**	**$ 1**	**$ 11**	**$ 8**	**$ —**	**$ 8**
As of December 31, 2017						
Derivatives with legal right of offset -						
Gross recognized amount	$ 216	$ 8	$ 224	$ 476	$ 13	$ 489
Netting adjustments and cash collateral	(214)	(8)	(222)	(463)	(7)	(470)
Derivatives with legal right of offset - net	2	—	2	13	6	19
Derivatives without legal right of offset	1	—	1	1	—	1
Derivatives on statements of condition	3	—	3	14	6	20
Less:						
Noncash collateral received or pledged and cannot be sold or repledged	—	(1)	(1)	—	6	6
Net amount	$ 3	$ 1	$ 4	$ 14	$ —	$ 14

At September 30, 2018, we had $160 million of additional credit exposure on cleared derivatives due to pledging of noncash collateral to our DCOs for initial margin, which exceeded our derivative position. We had $60 million of comparable exposure at December 31, 2017.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Fair Value Hedges

The following table presents our fair value hedging results by the type of hedged item. We had no gain (loss) for hedges that no longer qualified as a fair value hedge. Additionally, the table indicates where fair value hedging results are classified in our statements of income. In this regard, the **Amount Recorded in Net Interest Income** column includes the following:

- The amortization of closed fair value hedging adjustments, which are included in the interest income/expense line item of the respective hedged item type.
- The effect of net interest settlements attributable to open derivative hedging instruments, which are recorded directly to the interest income/expense line item of the respective hedged item type.

	Gain (Loss) on Hedging Instrument	Gain (Loss) on Hedged Item	Total Ineffectiveness Recognized in Derivatives and Hedging Activities	Amount Recorded in Net Interest Income
Three months ended September 30, 2018				
Available-for-sale debt securities	**$ 46**	**$ (50)**	**$ (4)**	**$ (14)**
Advances	**43**	**(47)**	**(4)**	**6**
MPF Loans held for portfolio	**—**	**—**	**—**	**(1)**
Consolidated obligation bonds	**(17)**	**19**	**2**	**(18)**
Total	**$ 72**	**$ (78)**	**$ (6)**	**$ (27)**
Three months ended September 30, 2017				
Available-for-sale debt securities	$ 23	$ (26)	$ (3)	$ (21)
Advances	9	(9)	—	(8)
MPF Loans held for portfolio	—	—	—	(2)
Consolidated obligation bonds	(4)	4	—	7
Total	$ 28	$ (31)	$ (3)	$ (24)
Nine months ended September 30, 2018				
Available-for-sale debt securities	**$ 95**	**$ (101)**	**$ (6)**	**$ (44)**
Advances	**150**	**(148)**	**2**	**9**
MPF Loans held for portfolio	**—**	**—**	**—**	**(3)**
Consolidated obligation bonds	**(166)**	**164**	**(2)**	**(34)**
Total	**$ 79**	**$ (85)**	**$ (6)**	**$ (72)**
Nine months ended September 30, 2017				
Available-for-sale debt securities	$ 58	$ (64)	$ (6)	$ (70)
Advances	(6)	9	3	(27)
MPF Loans held for portfolio	—	—	—	(5)
Consolidated obligation bonds	55	(55)	—	29
Total	$ 107	$ (110)	$ (3)	$ (73)

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Cash Flow Hedges

We are exposed to the variability in the total net proceeds received from forecasted zero-coupon discount note issuances, which is attributable to changes in the benchmark interest rate, London Interbank Offering Rate (LIBOR). As a result, we enter into cash flow hedge relationships utilizing derivative agreements to hedge the total net proceeds received from our "rolling" forecasted zero-coupon discount note issuances attributable to changes in LIBOR. The maximum length of time over which we are hedging this exposure is 10 years. We reclassify amounts in AOCI into our statements of income in the same periods during which the hedged forecasted transaction affects our earnings. We had no discontinued hedges for the periods presented. The deferred net gains (losses) on derivative instruments in AOCI that are expected to be reclassified to earnings during the next twelve months were not material as of September 30, 2018.

The following table presents our cash flow hedging results by type of hedged item. Additionally, the table indicates where cash flow hedging results are classified in our statements of income. In this regard, the **Amount Recorded in Net Interest Income** column includes the following:

- The amortization of closed cash flow hedging adjustments, which are reclassified from AOCI into the interest income/expense line item of the respective hedged item type.
- The effect of net interest settlements attributable to open derivative hedging instruments, which are recorded directly to the interest income/expense line item of the respective hedged item type.

	Ineffectiveness Recorded in Derivatives and Hedging Activities	Effective Portion Recorded in AOCI	Amount Recorded in Net Interest Income
Three months ended September 30, 2018			
Discount notes	**$ —**	**$ 15**	**$ (22)**
Three months ended September 30, 2017			
Advances	$ —	$ —	$ 1
Discount notes	1	44	(40)
Total	$ 1	$ 44	$ (39)
Nine months ended September 30, 2018			
Advances	**$ —**	**$ —**	**$ 1**
Discount notes	**1**	**103**	**(86)**
Bonds	**—**	**—**	**(1)**
Total	**$ 1**	**$ 103**	**$ (86)**
Nine months ended September 30, 2017			
Advances	$ —	$ —	$ 7
Discount notes	2	117	(128)
Bonds	—	—	(2)
Total	$ 2	$ 117	$ (123)

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 10 – Consolidated Obligations

The FHLBs issue consolidated obligations through the Office of Finance as their agent. Consolidated obligations consist of discount notes and consolidated obligation bonds. Consolidated discount notes are issued to raise short-term funds, are issued at less than their face amount and redeemed at par value when they mature. The maturity of consolidated obligation bonds may range from less than one year to over 20 years, but they are not subject to any statutory or regulatory limits on maturity.

The following table presents our consolidated obligation discount notes for which we are the primary obligor. All are due in one year or less.

As of	September 30, 2018	December 31, 2017
Carrying Amount	$ 37,674	$ 41,191
Weighted Average Interest Rate	1.98%	1.23%

The following table presents our consolidated obligation bonds, for which we are the primary obligor, including callable bonds that are redeemable in whole, or in part, at our discretion on predetermined call dates.

As of September 30, 2018	Contractual Maturity	Weighted Average Interest Rate	By Maturity or Next Call Date
Due in one year or less	$ 24,310	1.88%	$ 35,432
One to two years	7,011	1.82%	6,503
Two to three years	4,714	2.16%	1,867
Three to four years	4,152	2.23%	1,268
Four to five years	2,061	2.94%	983
Thereafter	4,369	3.03%	564
Total par value	$ 46,617	2.08%	$ 46,617

The following table presents consolidated obligation bonds outstanding by call feature:

As of	September 30, 2018	December 31, 2017
Noncallable	$ 33,202	$ 23,644
Callable	13,415	13,703
Par value	46,617	37,347
Fair value hedging adjustments	(373)	(214)
Other adjustments	(12)	(12)
Consolidated obligation bonds	$ 46,232	$ 37,121

The following table summarizes the consolidated obligations of the FHLBs and those for which we are the primary obligor. We did not accrue a liability for our joint and several liability related to the other FHLBs' share of the consolidated obligations as of September 30, 2018, and December 31, 2017. See **Note 17 - Commitments and Contingencies** in our 2017 Form 10-K for further details.

	September 30, 2018			December 31, 2017		
Par values as of	Bonds	Discount Notes	Total	Bonds	Discount Notes	Total
FHLB System total consolidated obligations	$ 615,216	$ 403,882	$1,019,098	$ 642,211	$ 392,049	$1,034,260
FHLB Chicago as primary obligor	46,617	37,741	84,358	37,347	41,235	78,582
As a percent of the FHLB System	8%	9%	8%	6%	11%	8%

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 11 – Capital and Mandatorily Redeemable Capital Stock (MRCS)

Under our Capital Plan our stock consists of two sub-classes of stock, Class B1 activity stock and Class B2 membership stock (together, Class B stock), both with a par value of $100 and redeemable on five years' written notice, subject to certain conditions. Under the Capital Plan, each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. Class B1 activity stock is available to support a member's activity stock requirement. Class B2 membership stock is available to support a member's membership stock requirement and any activity stock requirement. See **Note 13 – Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in our 2017 Form 10-K for further information on our capital stock and MRCS.

Minimum Capital Requirements

For details on our minimum capital requirements, including how the ratios below were calculated, see **Minimum Capital Requirements** on page F-44 of our 2017 Form 10-K. We complied with our minimum regulatory capital requirements as shown below.

	September 30, 2018		December 31, 2017	
	Requirement	**Actual**	Requirement	Actual
Risk-based capital	**$ 1,219**	**$ 5,519**	$ 1,075	$ 5,051
Total regulatory capital	**$ 3,656**	**$ 5,519**	$ 3,374	$ 5,051
Total regulatory capital ratio	**4.00%**	**6.04%**	4.00%	5.99%
Leverage capital	**$ 4,571**	**$ 8,278**	$ 4,218	$ 7,577
Leverage capital ratio	**5.00%**	**9.06%**	5.00%	8.98%

Total regulatory capital and leverage capital includes mandatorily redeemable capital stock (MRCS) but does not include AOCI. Under the FHFA regulation on capital classifications and critical capital levels for the FHLBs, we are adequately capitalized.

The following members had regulatory capital stock exceeding 10% of our total regulatory capital stock outstanding (which includes MRCS):

As of September 30, 2018	**Regulatory Capital Stock Outstanding**	**% of Total Outstanding**	**Amount of Which is Classified as a Liability (MRCS)**
BMO Harris Bank, NA	**$ 314**	**15.5%**	**$ —**
The Northern Trust Company	**247**	**12.2%**	**—**
One Mortgage Partners Corp.	**245** [a]	**12.1%**	***245***

[a] One Mortgage Partners Corp. is a subsidiary of JPMorgan Chase Bank NA.

Dividends

Our ability to pay dividends is subject to the FHLB Act and FHFA regulations. On October 23, 2018, our Board of Directors declared a 4.50% dividend (annualized) for Class B1 activity stock and a 1.80% dividend (annualized) for Class B2 membership stock based on our preliminary financial results for the third quarter of 2018. This dividend, including dividends on mandatorily redeemable capital stock, totaled $20 million and is scheduled for payment on November 15, 2018.The Class B2 capital stock dividend is intended to enhance the value of membership; the Class B1 capital stock dividend reduces the effective cost of borrowing from the Bank and rewards our members who support the entire cooperative by using our advance products.

Any future dividend determination by our Board will be at our Board's sole discretion and will depend on future operating results, our Retained Earnings and Dividend Policy and any other factors the Board determines to be relevant.

Repurchase of Excess Capital Stock

We repurchase all excess Class B2 membership stock on a weekly basis at par value, i.e., at $100 per share**.** Members may continue to request repurchase of excess stock on any business day in addition to the weekly repurchase. All repurchases of excess stock, including automatic weekly repurchases, will continue until otherwise announced, but remain subject to our regulatory requirements, certain financial and capital thresholds, and prudent business practices.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 12 - Accumulated Other Comprehensive Income (Loss)

The following table summarizes the gains (losses) in AOCI for the reporting periods indicated.

	Net Unrealized - Available-for-sale Securities	Non-credit OTTI - Held-to-maturity Securities	Net Unrealized - Cash Flow Hedges	Post-Retirement Plans	AOCI
Three months ended September 30, 2018					
Beginning balance	**$ 315**	**$ (128)**	**$ (57)**	**$ (8)**	**$ 122**
Change in the period recorded to the statements of condition, before reclassifications to statements of income	**(32)**	**7**	**15**	**(5)**	**(15)**
Amounts reclassified in period to statements of income:					
Net interest income	**—**	**—**	**10**		**10**
Noninterest expense				**1**	**1**
Ending balance	**$ 283**	**$ (121)**	**$ (32)**	**$ (12)**	**$ 118**
Three months ended September 30, 2017					
Beginning balance	$ 478	$ (160)	$ (243)	$ (8)	$ 67
Change in the period recorded to the statements of condition, before reclassifications to statements of income	(24)	8	44	3	31
Amounts reclassified in period to statements of income:					
Net interest income	—	—	(1)		(1)
Noninterest gain (loss)	—	—	(1)		(1)
Ending balance	$ 454	$ (152)	$ (201)	$ (5)	$ 96
Nine months ended September 30, 2018					
Beginning balance	**$ 407**	**$ (143)**	**$ (147)**	**$ (5)**	**$ 112**
Change in the period recorded to the statements of condition, before reclassifications to statements of income	**(124)**	**22**	**103**	**(8)**	**(7)**
Amounts reclassified in period to statements of income:					
Net interest income	**—**	**—**	**13**		**13**
Noninterest gain (loss)	**—**	**—**	**(1)**		**(1)**
Noninterest expense				**1**	**1**
Ending balance	**$ 283**	**$ (121)**	**$ (32)**	**$ (12)**	**$ 118**
Nine months ended September 30, 2017					
Beginning balance	$ 459	$ (177)	$ (312)	$ (6)	$ (36)
Change in the period recorded to the statements of condition, before reclassifications to statements of income	(5)	25	117	1	138
Amounts reclassified in period to statements of income:					
Net interest income	—	—	(4)		(4)
Noninterest gain (loss)	—	—	(2)		(2)
Ending balance	$ 454	$ (152)	$ (201)	$ (5)	$ 96

Notes to Financial Statements - (Unaudited)
(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 13 - Fair Value

The following table is a summary of the fair value estimates and related levels in the hierarchy. The carrying amounts are per the statements of condition. Fair value estimates represent the exit prices that we would receive to sell assets or pay to transfer liabilities in an orderly transaction with market participants at the measurement date. They do not represent an estimate of our overall market value as a going concern, as they do not take into account future business opportunities or profitability of assets and liabilities. We measure instrument-specific credit risk attributable to our consolidated obligations based on our nonperformance risk, which includes the credit risk associated with the joint and several liability of other FHLBs. As a result, we did not recognize any instrument-specific credit risk attributable to our consolidated obligations that are carried at fair value. See **Note 2 - Summary of Significant Accounting Policies** in our 2017 Form 10-K for our fair value policies and **Note 16 - Fair Value** in our 2017 Form 10-K for our valuation techniques and significant inputs. See **Note 9 - Derivatives and Hedging Activities** for more information on the Netting and Cash Collateral amounts.

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting & Cash Collateral
September 30, 2018						
Carried at amortized cost						
Cash and due from banks	$ 44	$ 44	$ 44	$ —	$ —	
Interest bearing deposits	775	775	775	—	—	
Federal Funds sold and securities purchased under agreements to resell	9,835	9,835	—	9,835	—	
Held-to-maturity debt securities	2,928	3,217	—	2,549	668	
Advances	53,759	53,784	—	53,784	—	
MPF Loans held in portfolio, net	6,433	6,396	—	6,387	9	
Other assets	169	169	—	169	—	
Carried at fair value on a recurring basis						
Trading securities	2,596	2,596	—	2,596	—	
Government related non-MBS, ABS, and MBS	13,663	13,663	—	13,663	—	
Private label residential MBS	44	44	—	—	44	
Available-for-sale debt securities	13,707	13,707	—	13,663	44	
Advances - fair value option election	908	908	—	908	—	
Derivative assets	11	11	1	170	—	$ (160)
Other assets - fair value option election	116	116	—	116	—	
Carried at fair value on a nonrecurring basis						
MPF Loans held in portfolio, net	6	6	—	—	6	
Other assets	1	1	—	—	1	
Financial assets	91,288	$ 91,565	$ 820	$ 90,177	$ 728	$ (160)
Other non financial assets	122					
Assets	$ 91,410					
Carried at amortized cost						
Deposits	$ (581)	$ (581)	$ —	$ (581)	$ —	
Consolidated obligation discount notes	(37,674)	(37,667)	—	(37,667)	—	
Consolidated obligation bonds	(44,030)	(43,996)	—	(43,996)	—	
Mandatorily redeemable capital stock	(313)	(313)	(313)	—	—	
Other liabilities	(154)	(154)	—	(154)	—	
Carried at fair value on a recurring basis						
Consolidated obligation bonds - fair value option	(2,202)	(2,202)	—	(2,202)	—	
Derivative liabilities	(25)	(25)	—	(420)	—	$ 395
Financial liabilities	(84,979)	$ (84,938)	$ (313)	$ (85,020)	$ —	$ 395
Other non financial liabilities	(1,107)					
Liabilities	$ (86,086)					

(Dollars in tables in millions except per share amounts unless otherwise indicated)

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Netting
December 31, 2017						
Carried at amortized cost						
Cash and due from banks	$ 42	$ 42	$ 42	$ —	$ —	
Interest bearing deposits	775	775	775	—	—	
Federal Funds sold and securities purchased under agreements to resell	12,561	12,561	—	12,561	—	
Held-to-maturity debt securities	4,157	4,538	—	3,734	804	
Advances	47,309	47,336	—	47,336	—	
MPF Loans held in portfolio, net	5,186	5,306	—	5,295	11	
Other assets	119	119	—	119	—	
Carried at fair value on a recurring basis						
Trading securities	233	233	—	233	—	
Government related non-MBS, ABS, and MBS	12,907	12,907	—	12,907	—	
Private label residential MBS	50	50	—	—	50	
Available-for-sale debt securities	12,957	12,957	—	12,907	50	
Advances - fair value option election	776	776	—	776	—	
Derivative assets	3	3	—	225	—	$ (222)
Other assets - fair value option election	118	118	—	118	—	
Carried at fair value on a nonrecurring basis						
MPF Loans held in portfolio, net	7	7	—	—	7	
Other assets	3	3	—	—	3	
Financial assets	84,246	$ 84,774	$ 817	$ 83,304	$ 875	$ (222)
Other non financial assets	109					
Assets	$ 84,355					
Carried at amortized cost						
Deposits	(524)	(524)	—	(524)	—	
Consolidated obligation discount notes	(40,442)	(40,437)	—	(40,437)	—	
Consolidated obligation bonds	(31,861)	(32,011)	—	(32,011)	—	
Mandatorily redeemable capital stock	(311)	(311)	(311)	—	—	
Other liabilities	(94)	(94)	—	(94)	—	
Carried at fair value on a recurring basis						
Consolidated obligation discount notes - fair value option	(749)	(749)	—	(749)	—	
Consolidated obligation bonds - fair value option	(5,260)	(5,260)	—	(5,260)	—	
Derivative liabilities	(20)	(20)	—	(490)	—	470
Financial liabilities	(79,261)	$ (79,406)	$ (311)	$ (79,565)	$ —	$ 470
Other non financial liabilities	(242)					
Liabilities	$ (79,503)					

We had no transfers between levels for the periods shown.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Fair Value Option

We may elect the fair value option for financial instruments, such as advances, MPF Loans held for sale, and consolidated obligation discount notes and bonds, in cases where hedge accounting treatment may not be achieved due to the inability to meet the hedge effectiveness testing criterion. Financial instruments for which we elected the fair value option along with their related fair value are shown on our **Statements of Condition.** Refer to our **Note 2 – Summary of Significant Accounting Policies** to the financial statements in our 2017 Form 10-K for further details.

The following table presents the changes in fair values of financial assets and liabilities carried at fair value under the fair value option. These changes were recognized in noninterest income - instruments held under the fair value option in our statements of income.

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Advances	**$ (1)**	$ (1)	**$ (11)**	$ 2
Discount notes	**—**	(1)	**—**	(1)
Consolidated obligation bonds	**(1)**	(3)	**(3)**	(3)
Other assets	**(1)**	—	**(6)**	(1)
Noninterest income - Instruments held under fair value option	**$ (3)**	$ (5)	**$ (20)**	$ (3)

The following table reflects the difference between the aggregate unpaid principal balance (UPB) outstanding and the aggregate fair value for our long term financial instruments for which the fair value option has been elected. None of the advances were 90 days or more past due and none were on nonaccrual status.

	September 30, 2018		December 31, 2017	
As of	**Advances**	**Consolidated Obligation Bonds**	Advances	Consolidated Obligation Bonds
Unpaid principal balance	**$ 929**	**$ 2,213**	$ 786	$ 5,270
Fair value over (under) UPB	**(21)**	**(11)**	(10)	(10)
Fair value	**$ 908**	**$ 2,202**	$ 776	$ 5,260

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 14 – Commitments and Contingencies

The following table shows our commitments outstanding, which represent off-balance sheet obligations.

	September 30, 2018			December 31, 2017		
As of	**Expire within one year**	**Expire after one year**	**Total**	Expire within one year	Expire after one year	Total
Unsettled consolidated obligation bonds	**$ 25**	**$ —**	**$ 25**	$ —	$ —	$ —
Member standby letters of credit	**18,407**	**4,308** [a]	**22,715**	15,703	3,869 [a]	19,572
Housing authority standby bond purchase agreements	**71**	**295**	**366**	—	337	337
Advance commitments	**1,647**	**3**	**1,650**	151	—	151
MPF delivery commitments	**433**	**—**	**433**	371	—	371
Other	**3**	**—**	**3**	14	—	14
Commitments	**$ 20,586**	**$ 4,606**	**$ 25,192**	$ 16,239	$ 4,206	$ 20,445

[a] Contains $1.6 billion and $750 million of member standby letters of credit as of September 30, 2018, and December 31, 2017, which were renewable annually.

For a description of defined terms see **Note 17 - Commitments and Contingencies** to the financial statements in our 2017 Form 10-K.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Note 15 – Transactions with Related Parties and Other FHLBs

We define related parties as either members whose officers or directors serve on our Board of Directors, or members that control more than 10% of our total voting interests. We did not have any members that controlled more than 10% of our total voting interests for the periods presented in these financial statements.

In the normal course of business, we may extend credit to or enter into other transactions with a related party. These transactions are done at market terms that are no more favorable than the terms of comparable transactions with other members who are not considered related parties.

Members

The following table summarizes material balances we had with our members who are related parties as defined above (including their affiliates) as of the periods presented. The related impacts to our Statements of Income were not material.

As of	**September 30, 2018**	December 31, 2017
Assets - Advances	**$ 629**	$ 165
Liabilities - Deposits	**6**	13
Equity - Capital Stock	**27**	10

Other FHLBs

From time to time, we may loan to, or borrow from, other FHLBs. These transactions are done at market terms that are no more favorable than the terms of comparable transactions with other counterparties. These transactions are overnight, maturing the following business day.

In addition, we provide programmatic and operational support in our role as the administrator of the MPF Program on behalf of the other MPF Banks for a fee.

Material transactions with other FHLBs are identified on the face of our **Financial Statements**.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Selected Financial Data

As of or for the three months ended	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Selected statements of condition data					
Investments [a]	**$ 29,841**	$ 36,048	$ 34,818	$ 30,683	$ 31,885
Advances	**54,667**	54,468	50,840	48,085	50,153
MPF Loans held in portfolio, net	**6,439**	5,779	5,357	5,193	5,024
Total assets	**91,410**	96,731	91,391	84,355	87,488
Consolidated obligation discount notes, net	**37,674**	43,007	41,483	41,191	45,460
Consolidated obligation bonds, net	**46,232**	46,854	43,516	37,121	35,890
Mandatorily redeemable capital stock recorded as a liability	**313**	314	311	311	308
Capital stock	**1,718**	1,805	1,579	1,443	1,557
Retained earnings	**3,488**	3,428	3,358	3,297	3,219
Total capital	**5,324**	5,355	5,063	4,852	4,872
Other selected data at period end					
Member standby letters of credit outstanding	**$ 22,715**	$ 21,587	$ 20,132	$ 19,572	$ 15,411
MPF Loans par value outstanding - FHLB System [b]	**56,687**	54,572	52,582	51,563	49,970
MPF Loans par value outstanding - FHLB Chicago PFIs [b]	**13,858**	13,189	12,692	12,484	12,187
Number of members	**711**	719	719	720	717
Total employees (full and part time)	**469**	462	461	460	457
Selected statements of income data					
Net interest income after provision for credit losses	**$ 127**	$ 132	$ 124	$ 130	$ 124
Non-interest gain (loss)	**6**	9	—	13	5
Non-interest expense	**47**	46	42	45	43
Net income	**77**	85	74	88	77
Other selected data during the periods					
MPF Loans par value amounts funded - FHLB System [b]	**$ 3,968**	$ 3,555	$ 2,494	$ 3,280	$ 3,474
Number of PFIs funding MPF products - FHLB System [b]	**761**	767	720	750	769
MPF Loans par value amounts funded - FHLB Chicago PFIs [b]	**$ 1,119**	$ 892	$ 566	$ 729	$ 655
Number of PFIs funding MPF products - FHLB Chicago [b]	**180**	184	174	175	175
Selected ratios (rates annualized)					
Total regulatory capital to assets ratio	**6.04%**	5.73%	5.74%	5.99%	5.81%
Market value of equity to book value of equity	**105%**	106%	107%	107%	107%
Primary mission asset ratio [c]	**70.7%**	69.9%	69.1%	67.3%	67.2%
Dividend rate class B1 activity stock-period paid	**4.25%**	4.00%	3.50%	3.30%	3.30%
Dividend rate class B2 membership stock-period paid	**1.70%**	1.60%	1.50%	1.25%	1.25%
Return on average assets	**0.33%**	0.36%	0.33%	0.41%	0.36%
Return on average equity	**5.82%**	6.42%	5.82%	7.34%	6.54%
Average equity to average assets	**5.67%**	5.61%	5.67%	5.59%	5.50%
Net yield on average interest-earning assets	**0.55%**	0.56%	0.55%	0.60%	0.59%
Return on average Regulatory Capital spread to three month LIBOR index	**3.24%**	3.90%	3.77%	5.54%	4.89%
Cash dividends	**$ 17**	$ 15	$ 13	$ 10	$ 11
Dividend payout ratio	**22%**	18%	18%	11%	14%

[a] Includes investment securities, interest bearing deposits, Federal Funds sold, and securities purchased under agreements to resell.

[b] Includes all MPF products, on and off our balance sheet. See **Mortgage Partnership Finance Program** on page 8 in our 2017 Form 10-K.

[c] In 2015, the FHFA issued an advisory bulletin that provides guidance relating to how the FHFA will assess each FHLB's core mission achievement by using a ratio of primary mission assets (which includes advances and mortgage loans acquired from members) to consolidated obligations. The primary mission asset ratios presented in this 10-Q are on an annual average year to date basis. See **Mission Asset Ratio** on page 5 in our 2017 Form 10-K for more information.

Forward-Looking Information

Statements contained in this report, including statements describing the objectives, projections, estimates, or future predictions of management, may be "forward-looking statements." These statements may use forward-looking terminology, such as "anticipates," "believes," "expects," "could," "estimates," "may," "should," "will," their negatives, or other variations of these terms. We caution that, by their nature, forward-looking statements involve risks and uncertainties related to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. These risks and uncertainties could cause actual results to differ materially from those expressed or implied in these forward-looking statements and could affect the extent to which a particular objective, projection, estimate, or prediction is realized. As a result, undue reliance should not be placed on such statements.

These forward-looking statements involve risks and uncertainties including, but not limited to, the following:

- changes in the demand by our members for advances, including the impact of the availability of other sources of funding for our members, such as deposits;

- limits on our investments;

- the impact of new business strategies, including our ability to develop and implement business strategies focused on maintaining net interest income; the impact of our efforts to simplify our balance sheet on our market risk profile and future hedging costs; our ability to execute our business model, implement business process improvements and scale our size to our members' borrowing needs; the extent to which our members use our advances as part of their core financing rather than just as a back-up source of liquidity; and our ability to implement product enhancements and new products and generate enough volume in new products to cover our costs related to developing such products;

- the extent to which amendments to our Capital Plan, including our ability to reduce capital stock requirements and continue to offer the Reduced Capitalization Advance Program for certain future advance borrowings, and our ability to continue to pay enhanced dividends on our activity stock, impact borrowing by our members;

- our ability to meet required conditions to repurchase and redeem capital stock from our members (including maintaining compliance with our minimum regulatory capital requirements and determining that our financial condition is sound enough to support such repurchases), and the amount and timing of such repurchases or redemptions;

- general economic and market conditions, including the timing and volume of market activity, inflation/deflation, unemployment rates, housing prices, the condition of the mortgage and housing markets, increased delinquencies and/or loss rates on mortgages, prolonged or delayed foreclosure processes, and the effects on, among other things, mortgage-backed securities; volatility resulting from the effects of, and changes in, various monetary or fiscal policies and regulations, such as those determined by the Federal Reserve Board and Federal Deposit Insurance Corporation; impacts from various measures to stimulate the economy and help borrowers refinance home mortgages; disruptions in the credit and debt markets and the effect on future funding costs, sources, and availability;

- volatility of market prices, rates, and indices, or other factors, such as natural disasters, that could affect the value of our investments or collateral; changes in the value or liquidity of collateral securing advances to our members;

- changes in the value of and risks associated with our investments in mortgage loans, mortgage-backed securities, and FFELP ABS and the related credit enhancement protections;

- changes in our ability or intent to hold mortgage-backed securities to maturity;

- changes in mortgage interest rates and prepayment speeds on mortgage assets;

- membership changes, including the withdrawal of members due to restrictions on our dividends or the loss of members through mergers and consolidations or through regulatory requirements; changes in the financial health of our members, including the resolution of some members; risks related to expanding our membership to include more institutions with regulators and resolution processes with which we have less experience;

- increased reliance on short-term funding and changes in investor demand and capacity for consolidated obligations and/or the terms of interest rate derivatives and similar agreements, including changes in the relative attractiveness of consolidated obligations as compared to other investment opportunities; changes in our cost of funds due to concerns over U.S. fiscal policy, and any related rating agency actions impacting FHLB consolidated obligations;

- political events, including legislative, regulatory, judicial, or other developments that affect us, our members, our counterparties and/or investors in consolidated obligations, including, among other things, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and related regulations and proposals and legislation related to housing finance and GSE reform; changes by our regulator or changes affecting our regulator and changes in the FHLB Act or applicable regulations as a result of the Housing and Economic Recovery Act of 2008 (Housing Act) or as may otherwise be issued by our regulator; the potential designation of us as a nonbank financial company for supervision by the Federal Reserve;

- regulatory changes to FHLB membership and liquidity requirements by the FHFA;

- the ability of each of the other FHLBs to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which we have joint and several liability;

- the pace of technological change and our ability to develop and support technology and information systems, including our ability to protect the security of our information systems and manage any failures, interruptions or breaches in our information systems or technology services provided to us through third party vendors;

- our ability to attract and retain skilled employees;

- the impact of new accounting standards and the application of accounting rules, including the impact of regulatory guidance on our application of such standards and rules;

- the impact of the application of auditor independence rules to our independent auditor;

- the volatility of reported results due to changes in the fair value of certain assets and liabilities; and

- our ability to identify, manage, mitigate, and/or remedy internal control weaknesses and other operational risks.

For a more detailed discussion of the risk factors applicable to us, see **Risk Factors** in our 2017 Form 10-K on page 16.

These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events, changed circumstances, or any other reason.

Executive Summary

Third Quarter 2018 Financial Highlights

- Advances outstanding increased $6.6 billion to $54.7 billion at September 30, 2018, up from $48.1 billion at December 31, 2017.
- MPF Loans held in portfolio increased to $6.4 billion at September 30, 2018, up from $5.2 billion at December 31, 2017, due to increased utilization by PFIs and the addition of new PFIs to the MPF Program.
- Total investment debt securities increased 11% to $19.2 billion at September 30, 2018, up from $17.3 billion at December 31, 2017, as we increased our purchase of Treasury securities and MBS.
- Total assets increased to $91.4 billion as of September 30, 2018, compared to $84.4 billion as of December 31, 2017.
- We recorded net income of $77 million in the third quarter of 2018, the same amount we recorded in the third quarter of 2017.
- Net interest income for the third quarter of 2018 was $126 million, up from $123 million for the third quarter of 2017, as we benefited from higher levels of interest earning assets.
- Letters of credit commitments increased to $22.7 billion at September 30, 2018, up from $19.6 billion at December 31, 2017.
- We remained in compliance with all of our regulatory capital requirements as of September 30, 2018.

Summary and Outlook

Third Quarter 2018 Dividend

On October 23, 2018, the Bank's Board of Directors increased the dividends declared per share on both subclasses of capital stock. Based on the Bank's preliminary financial results for the third quarter of 2018, the Board of Directors declared a dividend of 4.5% (annualized) for Class B1 activity capital stock (an increase of 25 basis points from the previous quarter) and a dividend of 1.80% (annualized) for Class B2 membership capital stock (an increase of 10 basis points from the previous quarter).

The Bank pays a higher dividend per share on Class B1 activity capital stock to reward members for using the Bank's advances and, thereby, supporting the entire cooperative. The higher dividend members receive on Class B1 activity capital stock has the effect of lowering their borrowing costs.

Growth in Member Product Use Continues

At the end of the third quarter of 2018, advances outstanding totaled $54.7 billion, up $6.6 billion from year-end 2017, and letters of credit totaled $22.7 billion, up $3.1 billion from year-end 2017. MPF Loans held in portfolio totaled $6.4 billion at the end of the third quarter of 2018, up $1.2 billion from year-end 2017, and the number of PFIs selling into MPF Traditional products also grew during the third quarter of 2018.

Investments in Member Communities

In the second year of our Community First® Capacity-Building Grant Program, the Bank provided $250,000 to seven nonprofit lending organizations in Illinois and Wisconsin to help them expand their capacity, and, in turn, enhance community development in the communities served by the Bank's members. In October 2018, the Bank announced $125,000 in Community First Disaster Relief Program funding for recovery efforts from the severe storms, flooding, and mudslides that occurred in June 2018 in the Federal Emergency Management Agency (FEMA)-declared disaster area of Ashland, Bayfield, Burnett, Clark, Douglas, and Iron counties in Wisconsin. Bank members can offer $5,000 grants to eligible households and businesses within the disaster area, and together, the Bank and its members can help rebuild the communities that sustained damages from this severe weather event.

Chief Diversity Officer Named

In September 2018, Cedric D. Thurman joined the Bank as a member of the Executive Team in the newly created position of Chief Diversity Officer. Mr. Thurman has a unique background that combines meaningful and relevant business experience in community banking, commercial banking, and real estate with a substantial background in diversity and inclusion; having led diversity initiatives at two major institutions in Chicago. Building a diverse and inclusive culture is central to the Bank's support of its members, and their increasingly diverse communities.

Critical Accounting Policies and Estimates

For a detailed description of our Critical Accounting Policies and Estimates see page 38 in our 2017 Form 10-K.

See **Note 2 - Summary of Significant Accounting Policies** and **Note 3 - Recently Issued but Not Yet Adopted Accounting Standards** to the financial statements in this Form 10-Q for the impact of changes in accounting policies and recently issued accounting standards on our financial results subsequent to December 31, 2017.

There have been no significant changes to the amounts of our critical accounting estimates in 2018.

Results of Operations

Net Interest Income

Net interest income is the difference between the amount we recognize into interest income on our interest earning assets and the amount we recognize into interest expense on our interest bearing liabilities. These amounts were determined in accordance with GAAP and were based on the underlying contractual interest rate terms of our interest earning assets and interest bearing liabilities as well as the following items:

- Net interest paid or received on interest rate swaps that are accounted for as fair value or cash flow hedges;
- Amortization of premiums;
- Accretion of discounts;
- OTTI security yield adjustments due to either subsequent increases or decreases in estimated cash flows;
- Amortization of hedge adjustments;
- Advance and investment prepayment fees; and
- MPF credit enhancement fees.

The table on the following page presents the increase or decrease in interest income and expense due to volume or rate variances. The calculation of these components includes the following considerations:

- *Average Balance:* Average balances are calculated using daily balances. Amortized cost basis is used to compute the average balances for most of our financial instruments, including MPF Loans held in portfolio that are on nonaccrual status and available-for-sale securities. The calculation of the yield on our available-for-sale securities does not give effect to changes in fair value that are reflected as a component of accumulated other comprehensive income (AOCI). Fair value is used to compute average balances for our trading securities and financial instruments carried at fair value under the fair value option.

- *Total Interest:* Total interest includes the net interest income components, as discussed above, applicable to our interest earning assets and interest bearing liabilities.

- *Yield/Rate:* Effective yields/rates are based on total interest and average balances as defined above. Yields/rates are calculated on an annualized basis.

- Any changes due to the combined volume/rate variance have been allocated to volume.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Increase or decrease in interest income and expense due to volume or rate variances

	September 30, 2018			September 30, 2017			Increase (decrease) due to		
	Average Balance	Total Interest	Yield/ Rate	Average Balance	Total Interest	Yield/ Rate	Volume	Rate	Net Change
For the three months ended									
Investment debt securities	$ 17,677	$ 168	3.80 %	$ 17,949	$ 163	3.63 %	$ (3)	$ 8	$ 5
Advances	56,109	312	2.22 %	47,135	157	1.33 %	50	105	155
MPF Loans held in portfolio	6,033	62	4.11 %	4,927	53	4.30 %	11	(2)	9
Federal funds sold and securities purchased under agreements to resell	11,009	54	1.96 %	11,467	34	1.19 %	(2)	22	20
Other interest bearing assets	1,180	7	2.37 %	1,247	4	1.28 %	—	3	3
Interest bearing assets	92,008	603	2.62 %	82,725	411	1.99 %	62	130	192
Noninterest bearing assets	929			929					
Total assets	92,937			83,654					
Consolidated obligation discount notes	37,649	208	2.21 %	41,241	148	1.44 %	(19)	79	60
Consolidated obligation bonds	48,392	263	2.17 %	36,437	136	1.49 %	65	62	127
Other interest bearing liabilities	922	6	2.60 %	918	4	1.74 %	—	2	2
Interest bearing liabilities	86,963	477	2.19 %	78,596	288	1.47 %	48	141	189
Noninterest bearing liabilities	567			384					
Total liabilities	87,530			78,980					
Net yield interest earning assets	$ 92,008	$ 126	0.55 %	$ 82,725	$ 123	0.59 %	$ 11	$ (8)	$ 3
For the nine months ended									
Investment debt securities	$ 17,952	$ 503	3.74 %	$ 18,639	$ 492	3.52 %	$ (20)	$ 31	$ 11
Advances	55,304	811	1.96 %	46,191	386	1.11 %	131	294	425
MPF Loans held in portfolio	5,595	177	4.22 %	4,906	160	4.35 %	22	(5)	17
Federal funds sold and securities purchased under agreements to resell	11,868	152	1.71 %	10,211	74	0.97 %	21	57	78
Other interest bearing assets	1,199	17	1.89 %	1,273	9	0.94 %	(1)	9	8
Interest bearing assets	91,918	1,660	2.41 %	81,220	1,121	1.84 %	192	347	539
Noninterest bearing assets	788			819					
Total assets	92,706			82,039					
Consolidated obligation discount notes	40,467	596	1.96 %	38,940	363	1.24 %	23	210	233
Consolidated obligation bonds	45,718	665	1.94 %	37,278	394	1.41 %	123	148	271
Other interest bearing liabilities	883	17	2.57 %	888	11	1.65 %	—	6	6
Interest bearing liabilities	87,068	1,278	1.96 %	77,106	768	1.33 %	146	364	510
Noninterest bearing liabilities	353			348					
Total liabilities	87,421			77,454					
Net yield interest earning assets	$ 91,918	$ 382	0.55 %	$ 81,220	$ 353	0.58 %	$ 47	$ (18)	$ 29

(Dollars in tables in millions except per share amounts unless otherwise indicated)

The following is an analysis of the preceding table and unless otherwise indicated, comparisons apply to the three and nine month periods ending September 30, 2018 compared to the same periods ending September 30, 2017.

- Interest income from investment debt securities increased due to increases in rates, partially offset by declines in volumes. Subject to FHFA regulatory limits as discussed in **Investments** on page 10 in our 2017 Form 10-K, we began making investments in MBS in June 2018; however the amount of new MBS purchases did not exceed the amount of maturities or paydowns on an average basis year to date.

- Interest income from advances increased primarily due to a rise in rates, which resulted primarily from interest rate hikes by the Federal Reserve Bank during the periods presented. Interest income also increased to a lesser extent as a result of higher member demand for advances. As our members experience increased customer borrowing demand outpacing their deposit growth, utilization of our advances increased.

- Interest income from MPF Loans held in portfolio increased due to higher volumes, as new MPF loan purchases continued to moderately outpace paydown and maturity activity due to increased utilization by PFIs and the addition of new PFIs to the MPF Program. Rates on MPF Loans declined slightly as the most seasoned loans, and highest rate loans, in our portfolio pay down.

- Interest income from Federal Funds sold and securities purchased under agreements to resell increased primarily due to increases in interest rates by the Federal Reserve Bank. They also increased to a lesser extent due to higher volumes as we increased the amounts of these liquid assets as demand for our advances and letters of credit increased, although the higher volume trend reversed slightly in the third quarter of 2018.

- Interest expense on both our shorter termed consolidated obligation discount notes and our longer termed consolidated obligation bonds increased, primarily due to rising rates. They also increased to a lesser extent due to higher volumes as we increased the amounts of debt we issue to fund demand for our advances and other assets. However, the higher volume trend in discount notes reversed slightly in the third quarter of 2018 as we took advantage of favorable variable interest rates on longer term bonds.

- For details of the effect our fair value and cash flow hedge activities had on our net interest income see **Total Net Effect Gain (Loss) of Hedging Activities** table on the following page.

Noninterest Income

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Noninterest income -				
Derivatives and hedging activities	**$ (5)**	$ —	**$ (5)**	$ 6
Instruments held under fair value option	**(3)**	(5)	**(20)**	(3)
MPF fees, **6** , 5 , **18** and 15 from other FHLBs	**9**	8	**24**	21
Other, net	**5**	2	**16**	7
Noninterest income	**$ 6**	$ 5	**$ 15**	$ 31

The following is an analysis of the above table and unless otherwise indicated, comparisons apply to the three and nine month periods ending September 30, 2018 and the same periods ending September 30, 2017.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Derivatives and Hedging Activities, and Instruments Held Under Fair Value Option

Instruments held under the fair value option were the most significant drivers of our decrease in noninterest income over the nine month periods presented, primarily due to rising interest rates. The majority of the effect from our derivatives and hedging activities is recorded in net interest income. The following table details the effect of all of these transactions on our statements of income.

Total Net Effect Gain (Loss) of Hedging Activities

	Advances	Investments	MPF Loans	Discount Notes	Bonds	Other	Total
Three months ended September 30, 2018							
Recorded in net interest income	**$ 6**	**$ (14)**	**$ (1)**	**$ (22)**	**$ (18)**	**$ —**	**$ (49)**
Recorded in derivatives & hedging activities	**(2)**	**(3)**	**(2)**	**—**	**1**	**1**	**(5)**
Recorded in other, net	**—**	**5**	**—**	**—**	**—**	**—**	**5**
Recorded on instruments held under fair value option	**(1)**	**—**	**(2)**	**—**	**—**	**—**	**(3)**
Total net effect gain (loss) of hedging activities	**$ 3**	**$ (12)**	**$ (5)**	**$ (22)**	**$ (17)**	**$ 1**	**$ (52)**
Three months ended September 30, 2017							
Recorded in net interest income	$ (7)	$ (21)	$ (2)	$ (40)	$ 7	$ —	$ (63)
Recorded in derivatives & hedging activities	1	(2)	2	—	(2)	1	—
Recorded on instruments held under fair value option	(1)	—	(1)	(1)	(2)	—	(5)
Total net effect gain (loss) of hedging activities	$ (7)	$ (23)	$ (1)	$ (41)	$ 3	$ 1	$ (68)
Nine months ended September 30, 2018							
Recorded in net interest income	**$ 10**	**$ (44)**	**$ (3)**	**$ (86)**	**$ (35)**	**$ —**	**$ (158)**
Recorded in derivatives & hedging activities	**20**	**(3)**	**(4)**	**1**	**(20)**	**1**	**(5)**
Recorded in other, net	**—**	**8**	**—**	**—**	**—**	**—**	**8**
Recorded on instruments held under fair value option	**(11)**	**—**	**(6)**	**—**	**(3)**	**—**	**(20)**
Total net effect gain (loss) of hedging activities	**$ 19**	**$ (39)**	**$ (13)**	**$ (85)**	**$ (58)**	**$ 1**	**$ (175)**
Nine months ended September 30, 2017							
Recorded in net interest income	$ (20)	$ (70)	$ (5)	$ (128)	$ 27	$ —	$ (196)
Recorded in derivatives & hedging activities	(2)	(5)	5	2	5	1	6
Recorded in other, net	—	1	—	—	—	—	1
Recorded on instruments held under fair value option	2	—	(2)	(1)	(2)	—	(3)
Total net effect gain (loss) of hedging activities	$ (20)	$ (74)	$ (2)	$ (127)	$ 30	$ 1	$ (192)

MPF fees (including from other FHLBs)

A majority of MPF fees are from other FHLBs that pay us a fixed membership fee to participate in the MPF Program and a volume based fee for us to provide services related to MPF Loans carried on their balance sheets. MPF fees also include income from other third party off balance sheet MPF Loan products and other related transaction fees. These fees are designed to offset a portion of the expenses we incur to administer the program. MPF fees have grown as off balance sheet MPF Loan volumes increased.

Other, net

We recorded an unrealized gain (loss) of $5 million in the third quarter and $8 million year-to-date in 2018 on our trading securities, as noted in the preceding table, which consist primarily of U.S. Treasury securities held for liquidity purposes. We expect this to reverse as the securities mature over the next year or so. We had no significant trading gains or losses in the 2017 year periods presented. The remainder of Other, net consists primarily of fee income earned on member standby letter of credit products, which has increased as noted in **Item 2. Selected Financial Data**.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Noninterest Expense

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Compensation and benefits	**$ 26**	$ 26	**$ 78**	$ 77
Operating expenses	**20**	15	**52**	45
Other	**1**	2	**5**	7
Noninterest expense	**$ 47**	$ 43	**$ 135**	$ 129

The following is an analysis of the preceding table and unless otherwise indicated, comparisons apply to the three and nine month periods ending September 30, 2018 and the same periods ending September 30, 2017.

We had 469 employees as of September 30, 2018, compared to 457 as of September 30, 2017, and total compensation and benefits were unchanged.

Operating expenses increased in both the three and nine month comparisons due to increased non-service cost components (interest and amortization) related to our pensions, and also in the third quarter of 2018 due to additional voluntary contributions that we made to our community investment programs.

Other consists primarily of our share of the funding for the FHFA, our regulator, and the Office of Finance, which manages the consolidated obligation debt issuances of the FHLBs, which were unchanged. In addition, Other includes MPF related nonoperating expenses/gains on the sale of real estate owned, which declined slightly.

Assessments

We record the Affordable Housing Program (AHP) assessment expense at a rate of 10% of income before assessments, excluding interest expense on MRCS. See **Note 11 - Affordable Housing Program** in our 2017 Form 10-K for further details.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Other Comprehensive Income (Loss)

	Three months ended September 30,		Nine months ended September 30,		Balance remaining in AOCI as of September 30,
	2018	2017	**2018**	2017	**2018**
Net unrealized gain (loss) available-for-sale debt securities	**$ (32)**	$ (24)	**$ (124)**	$ (5)	**$ 283**
Noncredit OTTI held-to-maturity debt securities	**7**	8	**22**	25	**(121)**
Net unrealized gain (loss) cash flow hedges	**25**	42	**115**	111	**(32)**
Postretirement plans	**(4)**	3	**(7)**	1	**(12)**
Other comprehensive income (loss)	**$ (4)**	$ 29	**$ 6**	$ 132	**$ 118**

The following is an analysis of the above table and unless otherwise indicated, comparisons apply to the three and nine month periods ending September 30, 2018 and the same periods ending September 30, 2017.

Net unrealized gain (loss) on available-for-sale debt securities

The net unrealized loss on our available-for-sale (AFS) portfolio for 2018 is attributable to the reversal of net unrealized gains from prior reporting periods as interest rates rose due to Federal Reserve Bank actions and as these securities approach maturity (since we expect to receive par value at maturity). As of September 30, 2018, we still had a sizable net unrealized gain balance remaining in AOCI attributable to our AFS portfolio that we expect to reverse over the remaining life of these securities.

Noncredit OTTI on held-to-maturity debt securities

We recorded unrealized noncredit impairments on held-to-maturity debt securities during the last financial crisis. As the market has recovered and because we intend to hold these securities to maturity, we are recording accretion to the carrying amount of the securities, reversing the remaining loss balance in AOCI over the remaining life of these securities.

Net unrealized gain (loss) on cash flow hedges

The net unrealized gain on cash flow hedges during the periods presented resulted from an increase in shorter term interest rates as a result of actions by the Federal Reserve Bank.

We did not recognize any instrument-specific credit risk in our statements of comprehensive income as of September 30, 2018 due to our credit standing. For further details on the activity in our Other Comprehensive Income (Loss) see **Note 12 - Accumulated Other Comprehensive Income (Loss)** to the financial statements.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Statements of Condition

	September 30, 2018	December 31, 2017
Cash and due from banks, interest bearing deposits, Federal Funds sold, and securities purchased under agreement to resell	**$ 10,654**	$ 13,378
Investment debt securities	**19,231**	17,347
Advances	**54,667**	48,085
MPF Loans held in portfolio, net of allowance for credit losses	**6,439**	5,193
Other	**419**	352
Assets	**91,410**	84,355
Consolidated obligation discount notes	**37,674**	41,191
Consolidated obligation bonds	**46,232**	37,121
Other	**2,180**	1,191
Liabilities	**86,086**	79,503
Capital stock	**1,718**	1,443
Retained earnings	**3,488**	3,297
Accumulated other comprehensive income (loss)	**118**	112
Capital	**5,324**	4,852
Total liabilities and capital	**$ 91,410**	$ 84,355

The following is an analysis of the above table and comparisons apply to September 30, 2018 compared to December 31, 2017.

Cash and due from banks, interest bearing deposits, Federal Funds sold, and securities purchased under agreements to resell

Amounts held in these accounts will vary each day based on the following:
- Interest rate spreads between Federal Funds sold and securities purchased under agreements to resell and our debt;
- Liquidity requirements;
- Counterparties available; and
- Collateral availability on securities purchased under agreements to resell.

We decreased the amounts of these liquid assets in the third quarter of 2018, as the cost of funding these assets versus the expected return was not as favorable as in earlier periods.

Investment Debt Securities

Investment debt securities increased primarily due to the purchase of $2.6 billion in short term U.S. Government securities in our trading securities portfolio during 2018. This increase was partially offset by declines in MBS/ABS securities in our available-for-sale and held-to-maturity portfolios that matured or paid down and were only partially replaced starting in June 2018, as noted in **Results of Operations** on page 39.

Advances

Although advances declined slightly in the third quarter of 2018 from the highest outstanding quarter end balance in our history as of June 30, 2018, advances are still up compared to year end 2017 due to strong market demand for funding in our district. As our members experience increased loan demands outpacing their deposit growth, utilization of our advances increased. While advance demand is strong, it is possible that member demand for our advances could decline in future periods should their funding needs change, or to the extent they elect alternative funding resources. In addition, as our advances with captive insurance companies mature, our total advance levels may decrease.

MPF Loans Held in Portfolio, Net of Allowance for Credit Losses

MPF Loans held in portfolio increased as new-purchase volume continued to outpace paydown and maturity activity due to increased utilization by PFIs and the addition of new PFIs to the MPF Program. In addition to our MPF Loans held in portfolio, we have MPF off-balance sheet products, where we buy and concurrently resell MPF Loans to Fannie Mae or other third party investors or pool and securitize them into Ginnie Mae MBS.

Liquidity, Funding, & Capital Resources

Liquidity

For the period ending September 30, 2018, we maintained a liquidity position in accordance with FHFA regulations and guidance, and policies established by our Board of Directors. Based upon our excess liquidity position described below, we anticipate remaining in compliance with our current liquidity requirements. See **Liquidity, Funding, & Capital Resources** on page 48 in our 2017 Form 10-K for a detailed description of our current liquidity requirements, which will be revised as discussed below. We use different measures of liquidity as follows:

Overnight Liquidity – Our policy requires us to maintain overnight liquid assets at least equal to 3.5% or $3.2 billion of total assets. As of September 30, 2018, our overnight liquidity was $18.3 billion or 20% of total assets, giving us an excess overnight liquidity of $15.1 billion.

Deposit Coverage – To support our member deposits, FHFA regulations require us to have an amount equal to the current deposits invested in obligations of the U.S. Government, deposits in eligible banks or trust companies, or advances with maturities not exceeding five years. As of September 30, 2018, we had excess liquidity of $44.3 billion to support member deposits.

Contingency Liquidity – The cumulative five business day liquidity measurement assumes there is a localized credit crisis for all FHLBs where the FHLBs do not have the ability to issue new consolidated obligations or borrow unsecured funds from other sources (e.g., purchasing Federal Funds or customer deposits). Our net liquidity in excess of our total uses and reserves over a cumulative five-business-day period was $18.2 billion as of September 30, 2018.

Additionally, FHFA guidance, which will be revised as discussed below, requires us to maintain daily liquidity through short-term investments in an amount at least equal to our anticipated cash outflows under two different scenarios. One scenario assumes that we cannot access the capital markets for 15 days and that during that time members do not renew any maturing, prepaid, and called advances (the "15 Days Scenario"). The second scenario assumes that we cannot access the capital markets for five days and that during that period we will automatically renew maturing and called advances for all members except for very large, highly rated members (the "Five Days Scenario"). These additional requirements are more stringent than the contingency liquidity requirement discussed above and are designed to enhance our protection against temporary disruptions in access to the FHLB debt markets in response to a rise in capital markets volatility. As a result of this guidance, we are maintaining increased balances in short-term investments. In addition, we fund certain overnight or shorter-term investments and advances with debt that has a maturity that extends beyond the maturities of the related investments or advances.

As further discussed in **Legislative and Regulatory Developments** on page 54, on August 23, 2018, the FHFA issued new guidance on liquidity (the “Liquidity AB”) that communicates the FHFA’s expectations with respect to the maintenance of sufficient liquidity to enable the FHLBs to fund advances and letters of credit for members during a sustained capital markets disruption. In connection with the Liquidity AB, the FHFA also issued a supervisory letter that identifies initial applicable thresholds for certain measures identified in the Liquidity AB. As market conditions warrant, the FHFA may update its supervisory letter to identify new thresholds within the ranges set forth in the Liquidity AB.

The Liquidity AB eliminates the 15 Days Scenario, and replaces the Five Days Scenario with the requirement that we hold positive cash flow assuming no access to the capital markets for an increased period of between ten to thirty calendar days, and assuming the renewal of all maturing advances. The Liquidity AB also requires the Bank to maintain liquidity reserves between one and 20 percent of our outstanding letter of credit commitments. These new requirements go into effect on March 31, 2019.

While the Bank is still analyzing the impact of the Liquidity AB, it will likely require the Bank to hold an additional amount of liquid assets to meet the new guidance, which could reduce the Bank’s ability to invest in higher-yielding assets, and may in turn negatively impact net interest income. To the extent that the Bank must adjust pricing for its short-term advances and letters of credit, these products may become less competitive, which may adversely affect advance and capital stock levels as well as letters of credit levels. For additional discussion of how our liquidity requirements may impact our earnings, see page 20 in the **Risk Factors** section of our 2017 Form 10-K.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

We are sensitive to maintaining an appropriate liquidity and funding balance between our financial assets and liabilities, and we measure and monitor the risk of refunding such assets as liabilities mature (refunding risk). In measuring the level of assets requiring refunding, we take into account their contractual maturities, as further described in the notes to the financial statements. In addition, we make certain assumptions about their expected cash flows. These assumptions include: calls for assets with such features, projected prepayments and scheduled amortizations for our MPF Loans held in portfolio, MBS and ABS investments.

The following table presents the unpaid principal balances of (1) MPF Loans held in portfolio, (2) AFS securities, and (3) HTM securities (including ABS and MBS investments), by expected principal cash flows. The table is illustrative of our assumptions about the expected rather than contractual cash flows of our assets, including prepayments made in advance of maturity.

		Investment Securities	
As of September 30, 2018	**MPF Loans Held in Portfolio**	**Available-for Sale**	**Held-to-Maturity**
Year of Expected Principal Cash Flows			
One year or less	$ 695	$ 4,355	$ 1,204
After one year through five years	2,345	4,189	1,554
After five years through ten years	1,702	2,348	388
After ten years	1,602	2,479	111
Total	$ 6,344	$ 13,371	$ 3,257

We consider our liabilities available to fund assets until their contractual maturity. For further discussion of the liquidity risks related to our access to funding, see page 22 of the **Risk Factors** section in our 2017 Form 10-K.

In an effort to provide limits to reduce the liquidity risks associated with a mismatch in assets and liability maturities, the Liquidity AB provides guidance on maintaining appropriate funding gaps for three-month (-10% to -20%) and one-year (-25% to -35%) maturity horizons, which must be met by December 31, 2018. Subject to market conditions, the Bank's cost of funding may increase if it is required to achieve the appropriate funding gap with longer term funding.

Funding

Conditions in Financial Markets

In September 2018, the Federal Open Market Committee (FOMC) raised the target range for the federal fund rate by 25 basis points from 2.00 percent to 2.25 percent. This is the eighth rate hike since the FOMC began to raise rates in December 2015. The markets anticipate another 25 basis point increase in the target range for the federal fund rate in the fourth quarter of 2018.

We maintained ready access to funding during the second quarter of 2018.

In July 2017, the United Kingdom's Financial Conduct Authority (FCA), a regulator of financial services firms and financial markets in the U.K., announced its intention to cease sustaining the LIBOR indices after 2021. In response, the Federal Reserve Board (FRB) convened the Alternative Reference Rates Committee (ARRC) to identify a set of alternative reference interest rates for possible use as market benchmarks. The ARRC has identified the Secured Overnight Financing Rate (SOFR) as such an alternative rate and the Federal Reserve Bank of New York began publishing SOFR rates in the second quarter of 2018. SOFR is based on a broad segment of the overnight Treasuries repurchase market and is intended to be a measure of the cost of borrowing cash overnight collateralized by Treasury securities. Many of our assets and liabilities are indexed to LIBOR. We are currently evaluating the potential impact of the eventual replacement of the LIBOR benchmark interest rate, including the possibility of SOFR as the replacement. For further discussion of the risks related to the replacement of LIBOR, see page 23 of the **Risk Factors** section in our 2017 Form 10-K.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Cash flows from operating activities

Nine months ended September 30,	2018	2017
Net cash provided by (used in) operating activities	**$ 447**	$ 337

The increase in net cash provided by operating activities resulted primarily from a decrease in cash outflows related to the purchase of MPF Loans held for sale.

Cash flows from investing activities with significant activity

Nine months ended September 30,	2018	2017
Liquid assets (Federal Funds sold, securities purchased under agreements to resell, and interest bearing deposits)	**$ 2,726**	$ (7,324)
Investment debt securities	**(1,208)**	3,467
Advances	**(6,743)**	(5,079)
MPF Loans held in portfolio	**(1,253)**	(60)
Other	**14**	20
Net cash provided by (used in) investing activities	**$ (6,464)**	$ (8,976)

Our investing activities consist predominantly of liquid assets, debt securities held for investment, MPF Loans, and advances. The change in net cash provided by (used in) investing activities and changes in allocation within investing activities are discussed below.

- We decreased liquid assets as the cost of funding these assets versus the expected return was not as favorable as in earlier periods.
- Debt securities held for investment primarily reflect the purchases made in our trading and available-for-sale debt security portfolios in 2018. Subject to FHFA limits, we began purchasing MBS securities in our available-for-sale debt security portfolio in June 2018. Our purchases were partially offset by continued paydowns in the rest of our investment debt security portfolio.
- Advances reflect the increase in advances outstanding during 2018 due to continued increase in member demand, as compared to the smaller increase in advances outstanding in 2017.
- MPF Loans held in portfolio reflect the increase in MPF Loans outstanding during 2018 as compared to 2017 due to increased utilization by PFIs and the addition of new PFIs to the MPF Program.

Cash flows from financing activities with significant activity

Nine months ended September 30,	2018	2017
Consolidated obligation discount notes	**$ (3,527)**	$ 9,493
Consolidated obligation bonds	**9,270**	(1,077)
Capital stock	**277**	(148)
Other	**(1)**	52
Net cash provided by (used in) financing activities	**$ 6,019**	$ 8,320

Our financing activities primarily reflect cash flows related to issuing and repaying consolidated obligations. The proceeds from our discount notes and bonds were primarily utilized to fund our investing activities as noted above. The change in net cash provided by (used in) financing activities and change in funding allocations are discussed below.

- A net decrease resulting from a decline in issuing discount notes in 2018 relative to the increased used of consolidated obligation bonds, which more than offset the net increase in consolidation obligation bonds described below.
- A net increase in 2018 in the amount of our consolidated obligation bonds used to fund the growth in our balance sheet, compared to 2017. In 2018, we relied primarily on consolidated obligation bonds for our funding as we took advantage of favorable variable interest rates on longer term bonds, as compared to a higher reliance on discount notes in 2017.
- Capital stock outstanding increased as members purchased capital stock to support their advance borrowings.

Capital Resources

Capital Rules

Under the Second Amended and Restated Capital Plan of the Federal Home Loan Bank of Chicago, effective October 1, 2015 (Capital Plan), our stock consists of two sub-classes of stock, Class B1 activity stock and Class B2 membership stock (together, Class B stock), both with a par value of $100 and redeemable on five years' written notice, subject to certain conditions. Each member is required to own capital stock in an amount equal to the greater of a membership stock requirement or an activity stock requirement. Class B1 activity stock is available to support a member's activity stock requirement. Class B2 membership stock is available to support a member's membership stock requirement and any activity stock requirement.

Under our Capital Plan, our Board of Directors may set a threshold of between $10,000 and $75 million on the amount of Class B2 membership stock that would otherwise be held for membership if a member has advances outstanding that have an activity stock requirement in excess of the threshold amount. In that case, the amount of Class B2 membership stock that exceeds such threshold and is necessary to support advance activity is automatically converted into Class B1 activity stock. That threshold is currently set at $10,000, which means that we will convert to Class B1 activity capital stock any capital stock supporting advances that exceeds the lesser of the member's membership requirement or $10,000.

The Board of Directors may periodically adjust members' activity stock requirement for certain new advances within a range of 2% and 6% of a member's outstanding advances. Our Board implemented this provision through the Reduced Capitalization Advance Program (RCAP) as further discussed below. Each member's activity stock requirement remains at 4.5% for non-RCAP advances.

Our Capital Plan allows for an activity stock requirement for MPF Loans acquired for our portfolio within a range of 0% and 6%, which our Board has set at 0%. Should the Board decide to introduce this capital requirement, we intend to notify members sufficiently in advance of the change and apply that change only to future acquisitions.

The Board may periodically adjust members' membership stock requirement within a range of 0.20% to 2% of a member's mortgage assets. Each member's membership stock requirement is the greater of either $10,000 or 0.40% of a member's mortgage assets. A member's investment in membership stock is subject to a cap equal to the lesser of (1) a dollar cap set by the Board within a range of $10,000 and $75 million, and (2) 9.9% of our total capital stock outstanding as of the prior December 31. The cap on each member's membership stock requirement is now $5 million, which is less than 9.9% of the Bank's total capital stock outstanding at December 31, 2017, and is thus the operative cap during the remainder of 2018 unless the Board sets a new cap.

Membership stock requirements will continue to be recalculated annually, whereas the activity stock requirement and any automatic conversion of Class B2 membership stock to Class B1 activity stock related to the threshold will apply on a daily basis.

We may only redeem or repurchase capital stock from a member if, following the redemption or repurchase, the member continues to meet its minimum investment requirement and we remain in compliance with our regulatory capital requirements as discussed in **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in this Form 10-Q. Members that withdraw from membership must wait at least five years after their membership was terminated and all of their capital stock was redeemed or repurchased before being readmitted to membership in any FHLB.

For details on our capital stock requirements under our Capital Plan during 2017, see **Capital Resource** on page 53 of our 2017 Form 10-K. Under the terms of our Capital Plan, our Board of Directors is authorized to amend the Capital Plan, and the FHFA must approve all such amendments before they become effective.

For details on our minimum regulatory capital requirements see **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements in this Form 10-Q**,** and **Minimum Capital Requirements** on page F-44 of our 2017 Form 10-K.

Reduced Capitalization Advance Program

RCAP allows members to borrow one or more advances with an activity stock requirement of only 2% for the life of the advance instead of the 4.5% requirement under our Capital Plan's general provisions. As of September 30, 2018, and December 31, 2017, RCAP advances outstanding total $24.6 billion to 153 members and $24.7 billion to 158 members, respectively.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Repurchase of Excess Capital Stock

We are currently repurchasing excess Class B2 membership stock on a weekly basis at par value, i.e., $100 per share. Members may continue to request repurchase of excess stock on any business day in addition to the weekly repurchase. All repurchases of excess stock, including automatic weekly repurchases, will continue until otherwise announced, but remain subject to our regulatory requirements, certain financial and capital thresholds, and prudent business practices. For details on the financial and capital thresholds relating to repurchases, see **Repurchase of Excess Capital Stock** on page 57 of our 2017 Form 10-K.

Capital Amounts

The following table reconciles our capital reported in our statements of condition to the amount of capital stock reported for regulatory purposes. MRCS is included in the calculation of the regulatory capital and leverage ratios but is recorded in other liabilities in our statements of condition.

	September 30, 2018	December 31, 2017
Capital Stock	**$ 1,718**	$ 1,443
MRCS	**313**	311
Regulatory capital stock	**2,031**	1,754
Retained earnings	**3,488**	3,297
Regulatory capital	**$ 5,519**	$ 5,051
Capital stock	**$ 1,718**	$ 1,443
Retained earnings	**3,488**	3,297
Accumulated other comprehensive income (loss)	**118**	112
GAAP capital	**$ 5,324**	$ 4,852

Accumulated other comprehensive income (loss) in the above table consists of changes in market value of various balance sheet accounts where the change is not recorded in earnings but are instead recorded in equity capital as the income (loss) is not yet realized. For details on these changes please see **Note 12 - Accumulated Other Comprehensive Income (Loss)** to the financial statements.

Although we have had no OTTI year to date in 2018, credit deterioration may negatively impact our remaining private label MBS portfolio. We cannot predict if or when impairments will occur, or the impact these impairments may have on our retained earnings and capital position. See the **Risk Factors** section on page 16 of our 2017 Form 10-K.

We continue to allocate 20% of our net income each quarter to a restricted retained earnings account in accordance with the Joint Capital Enhancement Agreement that we entered into with the other FHLBs, as further discussed in **Joint Capital Enhancement Agreement** on page F-45 in our 2017 Form 10-K.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Risk Management - Credit Risk

Managing Our Credit Risk Exposure Related to Member Credit Products

Our credit risk rating system focuses primarily on our member's overall financial health and takes into account the member's asset quality, earnings, and capital position. For further information please see **Credit Risk** starting on page 60 in our 2017 Form 10-K.

The following table presents the number of members and related credit outstanding to them by credit risk rating. Credit outstanding consists primarily of outstanding advances and letters of credit. MPF credit enhancement obligations, member derivative exposures, and other obligations make up the rest. Of the total credit outstanding, $54.8 billion were advances (par value) and $22.7 billion were letters of credit at September 30, 2018, compared to $48.0 billion and $19.6 billion at December 31, 2017.

	September 30, 2018			December 31, 2017		
Rating	**Borrowing Members**	**Credit Outstanding**	**Collateral Loan Value**	Borrowing Members	Credit Outstanding	Collateral Loan Value
1-3	**505**	**$ 76,985**	**$ 126,577**	495	$ 67,105	$ 116,810
4	**3**	**506**	**536**	7	498	577
5	**11**	**140**	**224**	11	120	234
Total	**519**	**$ 77,631**	**$ 127,337**	513	$ 67,723	$ 117,621

The majority of members assigned a 4 rating in the above table were required to submit specific collateral listings and the majority of members assigned a 5 rating were required to deliver collateral to us or to a third party custodian on our behalf.

MPF Loans and Related Exposures

For details on our allowance for credit losses on MPF Loans, please see **Note 8 - Allowance for Credit Losses** to the financial statements.

Credit Risk Exposure - Our credit risk exposure on conventional MPF Loans held in portfolio is the potential for credit losses due to borrower default on contractual principal and interest, which would result from the depreciation in the value of the real estate collateral securing the MPF Loan, offset by our ability to recover losses from PMI, Recoverable CE Fees, and the CE Amount which may include SMI. The PFI is required to pledge collateral to secure any portion of its CE Amount that is a direct obligation of the PFI. For further details see **Loss Structure for Credit Risk Sharing Products** on page 9 of our 2017 Form 10-K, and **Credit Risk Exposure** and **Setting Credit Enhancement Levels** on page 63 of our 2017 Form 10-K.

Mortgage Repurchase Risk

For details on our mortgage repurchase risk in connection with our sale of MPF Loans to third party investors and MPF Loans securitized into MBS when a loan eligibility requirement or other warranty is breached, see **Mortgage Repurchase Risk** on page 65 in our 2017 Form 10-K.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Investment Debt Securities

We hold a variety of AA or better rated investment securities, mostly government backed or insured securities such as GSE debt and FFELP ABS, and we believe these investments are low risk. There were no material changes in the credit ratings of these securities since December 31, 2017. For further details see **Investment Securities by Rating** on page 67 in our 2017 Form 10-K. Except for private label MBS, we have never taken an impairment charge on our investment securities.

Our private label MBS are predominantly variable rate securities rated below investment grade (BBB). There were no material changes in overall credit quality since December 31, 2017, nor have we acquired any new private label MBS. We last had an other-than-temporary impairment (OTTI) loss on private label MBS in 2012. We currently have unrealized gains on these securities as their market values have improved from the impaired values and subsequent to 2012 we have begun recording accretion gains on these securities back into income. For further details see **Note 5 - Investment Debt Securities** to the financial statements.

Unsecured Short-Term Investments

See **Unsecured Short-Term Investments** page 70 in our 2017 Form 10-K for further details on our unsecured short-term investments as well as policies and procedures to limit and monitor our unsecured credit risk exposure.

The following table presents the credit ratings of our unsecured investment counterparties, organized by the domicile of the counterparty or, where the counterparty is a U.S. branch or agency office of a foreign commercial bank, by the domicile of the counterparty's parent. This table does not reflect the foreign sovereign government's credit rating. The unsecured investment credit exposure presented in the table may not reflect the average or maximum exposure during the period as the table reflects only the balances at period end.

As of September 30, 2018	**AA**	**A**	**BBB**	**Total**
Domestic U.S.				
Interest-Bearing Deposits	$ —	$ 775	$ —	$ 775
Fed Funds Sold	—	1,100	210	1,310
U.S. branches and agency offices of foreign commercial banks - Federal Funds sold:				
Australia	1,000	—	—	1,000
Austria	—	250	—	250
Canada	—	2,575	—	2,575
France	—	600	—	600
Japan	—	700	—	700
Netherlands	—	325	—	325
Norway	—	600	—	600
Sweden	325	—	—	325
Total unsecured credit exposure	$ 1,325	$ 6,925	$ 210	$ 8,460

All $8.460 billion of the unsecured credit exposure shown in the above table were overnight investments.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Managing Our Credit Risk Exposure Related to Derivative Agreements

See **Note 9 - Derivatives and Hedging Activities** to the financial statements for a discussion of how we manage our credit risk exposure related to derivative agreements. We have credit exposure on net asset positions where we have not received adequate collateral from our counterparties. We also have credit exposure on net liability positions where we have pledged collateral in excess of our liability to a counterparty.

The following table presents our derivative positions where we have such credit exposures. The rating used was the lowest rating among the three largest NRSROs. Non-cash collateral pledged consists of initial margin we posted through our FCMs, on behalf of the DCOs for cleared derivatives and is included in our derivative positions with credit exposure.

	Net Derivative Fair Value Before Collateral	Cash Collateral Pledged	Noncash Collateral Pledged	Net Credit Exposure to Counterparties
As of September 30, 2018				
Nonmember counterparties -				
Undercollateralized asset positions -				
Bilateral derivatives -				
BBB	**$ 10**	**$ (8)**	**$ —**	**$ 2**
Overcollateralized liability positions -				
Bilateral derivatives -				
AA rated	**(2)**	**2**	**—**	**—** [a]
A rated	**(156)**	**163**	**—**	**7**
BBB	**(69)**	**70**	**—**	**1**
Cleared derivatives	**(16)**	**—**	**177**	**161**
Total	**$ (233)**	**$ 227**	**$ 177**	**$ 171**
As of December 31, 2017				
Nonmember counterparties -				
Undercollateralized asset positions -				
Bilateral derivatives -				
BBB	$ 8	$ (8)	$ —	$ — [a]
Overcollateralized liability positions -				
Bilateral derivatives -				
AA rated	(52)	52	—	— [a]
A rated	(75)	76	—	1
Cleared derivatives	(6)	—	67	61
Nonmember counterparties	(125)	121	67	63
Member counterparties	1	—	—	1
Total	$ (124)	$ 121	$ 67	$ 64

[a] Less than $1 million.

Legislative and Regulatory Developments

Significant regulatory actions and developments are summarized below.

Advisory Bulletin (AB) 2018-07 Federal Home Loan Bank Liquidity Guidance (Liquidity Guidance AB).

On August 23, 2018, the FHFA issued a final AB on FHLB liquidity that communicates the FHFA's expectations with respect to the maintenance of sufficient liquidity to enable the FHLBs to provide advances and letters of credit for members for a specified time without access to the capital markets or other unsecured funding sources. The Liquidity Guidance AB rescinds 2009 liquidity guidance previously issued by the FHFA. Contemporaneously with the issuance of the Liquidity Guidance AB, the FHFA issued a supervisory letter that identifies initial thresholds for measures of liquidity.

The Liquidity Guidance AB provides guidance on the level of on-balance sheet liquid assets related to base case liquidity. As part of the base case liquidity measure, the guidance also includes a separate provision covering off-balance sheet commitments from standby letters of credit (SLOCs). In addition, the Liquidity Guidance AB provides guidance related to asset/liability maturity funding gap limits.

With respect to base case liquidity, the FHFA revised previous guidance that required the FHLBs to assume a 5-day period without access to capital markets due to a change in certain assumptions underlying that guidance. Under the Liquidity Guidance AB, FHLBs would be required to hold positive cash flow assuming no access to capital markets for an increased period of between ten to thirty calendar days, with a specific measurement period set forth in the supervisory letter. The Liquidity Guidance AB also sets forth the initial cash flow assumptions and formula to calculate base case liquidity. With respect to SLOCs, the guidance states that FHLBs should maintain a liquidity reserve of between one percent and 20 percent of its outstanding SLOC commitments, as specified in the supervisory letter.

With respect to funding gaps and possible asset and liability mismatches, the Liquidity Guidance AB provides guidance on maintaining appropriate funding gaps for three-month (-10% to -20%) and one-year (-25 % to -35 %) maturity horizons, with specific initial percentages within these ranges identified in the supervisory letter. The Liquidity Guidance AB provides for these limits to reduce the liquidity risks associated with a mismatch in asset and liability maturities, including an undue reliance on short term debt funding, which may increase debt rollover risk.

The Liquidity Guidance AB also addressed liquidity stress testing, contingency funding plans and an adjustment to an FHLB's core mission achievement calculation. Portions of the Liquidity Guidance AB will be implemented beginning December 31, 2018, with further implementation on March 31, 2019, and full implementation on December 31, 2019. While the Bank is still analyzing the impact of the Liquidity Guidance AB, it will likely require the Bank to hold an additional amount of liquid assets to meet the new guidance, which could reduce the Bank's ability to invest in higher-yielding assets, and may in turn negatively impact net interest income. To the extent that the Bank must adjust pricing for its short-term advances and letters of credit, these products may become less competitive, which may adversely affect advance and capital stock levels as well as letters of credit levels. Additionally, subject to market conditions, the Bank's cost of funding may increase if it is required to achieve the appropriate funding gap with longer term funding.

Proposed Amendment to Rule Regarding Golden Parachute and Indemnification Payments.

On August 28, 2018, the FHFA proposed amending its rule on golden parachute payments (Golden Parachute Rule) to better align the Golden Parachute Rule with areas of the FHFA's supervisory concern and reduce administrative and compliance burdens. The Golden Parachute Rule sets forth the standards that the FHFA would take into consideration when limiting or prohibiting golden parachute and indemnification payments by an FHLB or the OF to an entity-affiliated party when such entity is in troubled condition, in conservatorship or receivership, or insolvent. The proposed amendments would:

- Focus these standards on payments to and agreements with executive officers, broad-based plans, such as severance plans, covering large numbers of employees and payments made to non-executive-officer employees who may have engaged in certain types of wrongdoings;
- Revise and clarify definitions, exemptions and procedures to implement the FHFA's supervisory approach; and
- Align procedures and outcomes of review with requirements of the FHFA's rule on executive compensation.

Comments on the proposed rule were due by October 12, 2018. Ten of the FHLBs and the OF provided a joint comment letter on October 12 related to clarifying certain provisions of the proposed amendment. The Bank is currently assessing the effect of the proposed rule but does not anticipate that, if adopted, it would materially impact the Bank.

***Final Rule on Indemnification Payments*.**

On October 4, 2018, the FHFA published a final rule establishing standards for identifying when an indemnification payment by an FHLB or the OF to an officer, director, employee, or other affiliated party in connection with an administrative proceeding or civil action instituted by the FHFA is prohibited or permissible. The rule generally prohibits these payments except in the following circumstances:

- premiums for any commercial insurance or fidelity bonds for directors and officers, to the extent that the insurance or fidelity bond covers expenses and restitution, but not a judgment in favor of the FHFA or a civil money penalty imposed by the FHFA;
- expenses of defending an action, subject to an agreement to repay those expenses in certain instances; and
- amounts due under an indemnification agreement entered into with a named affiliated party on or prior to September 20, 2016 (the date the rule was proposed).

The rule also requires that prior to making permitted payments related to expenses of defending an action, the board of directors must conduct a due investigation and make a written determination in good faith that: (1) the affiliated party acted in good faith and in a manner that he or she reasonably believed to be in the best interest of the FHLB or OF, and (2) such payments will not materially adversely affect the safety and soundness of the FHLB or the OF (as the case may be). The rule became effective November 5, 2018. The Bank does not expect the rule will materially impact the Bank.

***Office of the Comptroller of the Currency (OCC), FRB, Federal Deposit Insurance Corporation (FDIC), Farm Credit Administration and FHFA Proposed Rule on Margin and Capital Requirements for Covered Swap Entities*.**

On October 10, 2018, the OCC, FRB, FDIC, Farm Credit Administration, and the FHFA adopted final amendments to each agency's final rule on Margin and Capital Requirements for Covered Swap Entities (Swap Margin Rules) to conform the definition of "eligible master netting agreement" in such rules to the FRB's, OCC's and FDIC's final qualified financial contract (QFC) rules. The final amendments also clarify that a legacy swap would not be deemed to be a covered swap under the Swap Margin Rules if it is amended to conform to the QFC rules. The QFC rules previously published by the OCC, FRB, and FDIC require their respective regulated entities to amend covered QFCs to limit a counterparty's immediate termination or exercise of default rights in the event of bankruptcy or receivership of the regulated entity or its affiliate(s).

The Bank continues to evaluate the effect of this rule, but does not anticipate that it would materially impact the Bank.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our Asset/Liability Management Committee provides oversight of risk management practices and policies. This includes routine reporting to senior Bank management and the Board of Directors, as well as maintaining the Income and Market Value Risk Policy, which defines our interest rate risk limits. The table below reflects the change in market risk limits under the policy.

	September 30, 2018		December 31, 2017	
Scenario as of	**Change in Market Value of Equity**	**Loss Limit**	Change in Market Value of Equity	Loss Limit
-200 bp	**$ 122**	**$ (450)**	$ 202	$ (370)
-100 bp	**68**	**(200)**	66	(155)
-50 bp	**41**	**(90)**	31	(60)
-25 bp	**22**	**(45)**	16	(30)
+25 bp	**(23)**	**(45)**	(17)	(30)
+50 bp	**(47)**	**(90)**	(37)	(60)
+100 bp	**(102)**	**(200)**	(83)	(155)
+200 bp	**(228)**	**(450)**	(195)	(370)

Measurement of Market Risk Exposure

To measure our exposure, we discount the cash flows generated from modeling the terms and conditions of all interest rate-sensitive securities using current interest rates to determine their fair values or spreads to the swap curve for securities where third party prices are used. This includes considering explicit and embedded options using a lattice model or Monte Carlo simulation. We estimate yield curve, option, and basis risk exposures by calculating the fair value change in relation to various parallel changes in interest rates, implied volatility, prepayment speeds, spreads to the swap curve and mortgage rates.

The table below summarizes our sensitivity to various interest rate risk exposures in terms of changes in market value.

		Option Risk		**Basis Risk**	
	Yield Curve Risk	**Implied Volatility**	**Prepayment Speeds**	**Spread to Swap Curve**	**Mortgage Spread**
As of September 30, 2018	**$ (1)**	**$ (3)**	**$ (1)**	**(14)**	**$ —**
As of December 31, 2017	(1)	(2)	(2)	(13)	1

Yield curve risk – Change in market value for a one basis point parallel increase in the swap curve.
Option risk (implied volatility) – Change in market value for a one percent parallel increase in the swaption volatility.
Option risk (prepayment speeds) – Change in market value for a one percent increase in prepayment speeds.
Basis risk (spread to swap curve) – Change in market value for a one basis point parallel increase in the spread to the swap curve.
Basis risk (mortgage spread) – Change in market value for a one basis point increase in mortgage rates.

(Dollars in tables in millions except per share amounts unless otherwise indicated)

As of September 30, 2018, our sensitivity to changes in implied volatility was $(3) million. At December 31, 2017, our sensitivity to changes in implied volatility was $(2) million. These sensitivities are limited in that they do not incorporate other risks, including but not limited to, non-parallel changes in yield curves, prepayment speeds, and basis risk related to differences between the swap and the other curves. Option positions embedded in our mortgage assets and callable debt impact our yield curve risk profile, such that swap curve changes significantly greater than one basis point cannot be linearly interpolated from the table above.

Duration of equity is another measure to express interest rate sensitivity. We report the results of our duration of equity calculations to the FHFA each quarter. We measure duration of equity in a base case using the actual yield curve as of a specified date and then shock it with an instantaneous shift of the entire curve. The following table presents the duration of equity reported by us to the FHFA in accordance with the FHFA's guidance, which prescribes that down and up interest-rate shocks equal 200 basis points. The results are shown in years of duration equity.

	Duration of equity		
Scenario as of	**Down 200 bps**	**Base**	**Up 200 bps**
September 30, 2018	**1.5**	**1.5**	**2.3**
December 31, 2017	2.9	1.2	2.2

As of September 30, 2018, on a U.S. GAAP basis, our fair value surplus (relative to book value) was $309 million, and our market value of equity to book value of equity ratio was 105%, compared to $371 million and 107% at December 31, 2017. Our market to book value of total capital for regulatory risk-based capital purposes differs from this GAAP calculation, as discussed in **Note 11 - Capital and Mandatorily Redeemable Capital Stock (MRCS)** to the financial statements.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the Evaluation Date). Based on this evaluation, the principal executive officer and principal financial officer concluded as of the Evaluation Date that the disclosure controls and procedures were effective such that information relating to us that is required to be disclosed in reports filed with the SEC (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

For the most recent quarter presented in this Form 10-Q, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Consolidated Obligations

Our disclosure controls and procedures include controls and procedures for accumulating and communicating information relating to our joint and several liability for the consolidated obligations of other FHLBs. For further information, see **Item 9A. Controls and Procedures** on page 81 of our 2017 Form 10-K.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

For a discussion of the litigation relating to private label MBS bonds purchased by the Bank, see **Item 3. Legal Proceedings** on page 30 of our 2017 Form 10-K.

The Bank may also be subject to various other legal proceedings arising in the normal course of business. After consultation with legal counsel, management is not aware of any other proceedings that might have a material effect on the Bank's financial condition or results of operations.

Item 1A. Risk Factors.

In addition to the information presented in this report, readers should carefully consider the factors set forth in the **Risk Factors** section on page 16 in our 2017 Form 10-K, which could materially affect our business, financial condition, or future results. These risks are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also severely affect us.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Executive Officer
32.2	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Glossary of Terms

Advances: Secured loans to members.

ABS: Asset backed securities.

AFS: Available-for-sale debt securities.

AOCI: Accumulated Other Comprehensive Income.

Capital Plan: The Second Amended and Restated Capital Plan of the Federal Home Loan Bank of Chicago, effective as of October 1, 2015.

CE Amount: A PFI's assumption of credit risk on conventional MPF Loan products held in an MPF Bank's portfolio that are funded by, or sold to, an MPF Bank by providing credit enhancement either through a direct liability to pay credit losses up to a specified amount or through a contractual obligation to provide SMI. Does not apply to the MPF Government, MPF Xtra, MPF Direct or MPF Government MBS product.

CE Fee: Credit enhancement fee. PFIs are paid a credit enhancement fee for managing credit risk and in some instances, all or a portion of the CE Fee may be performance based.

CFTC: Commodity Futures Trading Commission

Consolidated Obligations (CO): FHLB debt instruments (bonds and discount notes) which are the joint and several liability of all FHLBs; issued by the Office of Finance.

Consolidated obligation bonds: Consolidated obligations that make periodic interest payments with a term generally over one year, although we have issued for terms of less than one year.

DCO: Derivatives Clearing Organization. A clearinghouse, clearing association, clearing corporation, or similar entity that enables each party to an agreement, contract, or transaction to substitute, through novation or otherwise, the credit of the DCO for the credit of the parties; arranges or provides, on a multilateral basis, for the settlement or netting of obligations; or otherwise provides clearing services or arrangements that mutualize or transfer credit risk among participants.

Discount notes: Consolidated obligations with a term of one year or less, which sell at less than their face amount and are redeemed at par value when they mature.

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted July 21, 2010.

Excess capital stock: Capital stock held by members in excess of their minimum investment requirement.

Fannie Mae: Federal National Mortgage Association.

FASB: Financial Accounting Standards Board.

FCM: Futures Commission Merchant.

FFELP: Federal Family Education Loan Program.

FHFA: Federal Housing Finance Agency - The Housing and Economic Recovery Act of 2008 enacted on July 30, 2008 created the Federal Housing Finance Agency which became the regulator of the FHLBs.

FHLB Act: The Federal Home Loan Bank Act of 1932, as amended.

FHLBs: The 11 Federal Home Loan Banks or subset thereof.

FHLB System: The 11 FHLBs and the Office of Finance.

FHLBC: The Federal Home Loan Bank of Chicago.

FHLB Chicago: The Federal Home Loan Bank of Chicago.

FLA: First loss account is a memo account used to track the MPF Bank's exposure to losses until the CE Amount is available to cover losses.

Freddie Mac: Federal Home Loan Mortgage Corporation.

GAAP: Generally accepted accounting principles in the United States of America.

Ginnie Mae: Government National Mortgage Association.

Ginnie Mae MBS: Mortgage-backed securities guaranteed by Ginnie Mae.

Government Loans: Mortgage loans insured or guaranteed by the Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD), the Department of Veteran Affairs (VA) or Department of Agriculture Rural Housing Service (RHS).

GSE: Government sponsored enterprise.

HFS: Held for sale.

HTM: Held-to-maturity debt securities.

LIBOR: London Interbank Offered Rate.

Master Commitment (MC): Pool of MPF Loans purchased or funded by an MPF Bank.

MBS: Mortgage-backed securities.

Moody's: Moody's Investors Service.

MPF®: Mortgage Partnership Finance.

MPF Banks: FHLBs that participate in the MPF program.

MPF Direct product: The MPF Program product under which we acquire non-conforming (jumbo) MPF Loans from PFIs without any CE Amount and concurrently resell them to a third party investor.

MPF Government MBS product: The MPF Program product under which we aggregate Government Loans acquired from PFIs in order to issue securities guaranteed by the Ginnie Mae that are backed by such Government Loans.

MPF Loans: Conventional and government mortgage loans secured by one-to-four family residential properties with maturities from five to 30 years or participations in such mortgage loans that are acquired under the MPF Program.

MPF Program: A secondary mortgage market structure that provides liquidity to FHLB members that are PFIs through the purchase or funding by an FHLB of MPF Loans.

MPF Xtra® product: The MPF Program product under which we acquire MPF Loans from PFIs without any CE Amount and concurrently resell them to Fannie Mae.

MRCS: Mandatorily redeemable capital stock.

NRSRO: Nationally Recognized Statistical Rating Organization.

Office of Finance: A joint office of the FHLBs established by the Finance Board to facilitate issuing and servicing of consolidated obligations.

OTTI: Other-than-temporary impairment.

PFI: Participating Financial Institution. A PFI is a member (or eligible housing associate) of an MPF Bank that has applied to and been accepted to do business with its MPF Bank under the MPF Program.

PMI: Primary Mortgage Insurance.

PwC: PricewaterhouseCoopers LLP.

RCAP: Reduced Capitalization Advance Program.

Recorded Investment: Recorded investment in a loan is its amortized cost basis plus related accrued interest receivable, if any. Recorded investment is not net of an allowance for credit losses but is net of any direct charge-off on a loan. Amortized cost basis is defined as either the amount funded or the cost to purchase MPF Loans. Specifically, the amortized cost basis includes the initial fair value amount of the delivery commitment as of the purchase or settlement date, agent fees (i.e., market risk premiums or discounts paid to or received from PFIs), if any, subsequently adjusted, if applicable, for accretion, amortization, collection of cash, charge-offs, and cumulative basis adjustments related to fair value hedges.

Recoverable CE Fee: Under the MPF Program, the PFI may receive a contingent performance based credit enhancement fee whereby such fees are reduced up to the amount of the FLA by losses arising under the Master Commitment.

Regulatory capital: Regulatory capital stock plus retained earnings.

Regulatory capital stock: The sum of the paid-in value of capital stock and mandatorily redeemable capital stock.

REO: Real estate owned.

SEC: Securities and Exchange Commission.

SMI: Supplemental mortgage insurance.

System or FHLB System: The Federal Home Loan Bank System consisting of the 11 Federal Home Loan Banks and the Office of Finance.

UPB: Unpaid Principal Balance.

U.S.: United States

FHLB Chicago | Federal Home Loan Bank of Chicago

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	FEDERAL HOME LOAN BANK OF CHICAGO
	/s/ Matthew R. Feldman
	Name: Matthew R. Feldman
	Title: President and Chief Executive Officer
Date: November 6, 2018	(Principal Executive Officer)
	/s/ Roger D. Lundstrom
	Name: Roger D. Lundstrom
	Title: Executive Vice President and Chief Financial Officer
Date: November 6, 2018	(Principal Financial Officer and Principal Accounting Officer)